# MSUKALIGWA LOCAL MUNICIPALITY

(Registration number MP302)

**Unaudited Annual financial statements**
**for the year ended 30 June 2017**

# General Information

| | |
|---|---|
| **Legal form of entity** | Local Municipality |
| **Mayoral committee** | |
| Executive Mayor | Cllr. M.S. Nkosi |
| Speaker | Cllr. M.P. Nkosi |
| Chief Whip | Cllr. P.E. Mashiane |
| MMC - Corporate Services | Cllr. J.A. Bal |
| MMC - Technical Services and Develpoment and planning | Cllr. L.P. Mnisi |
| MMC - Public Safety | Cllr. T.A. Mnisi |
| MMC - Finance | Cllr. E.C. Msezane |
| Councillors | Cllr. J.D.A. Blignaut |
| | Cllr. M.J. Blose |
| | Cllr. Z. Breydenbach |
| | Cllr. G.S. Greyling |
| | Cllr. B.I. Jiyane |
| | Cllr. L.N.V. Kubheka |
| | Cllr. D.J. Litau |
| | Cllr. F.J. Mabasa |
| | Cllr. D. Mabunda |
| | Cllr. B.I. Mabuza |
| | Cllr. M.E. Madonsela |
| | Cllr. N.H. Magagula |
| | Cllr. L.S. Mahlangu |
| | Cllr. L.A. Maseko |
| | Cllr. M.Z.M. Mashiane |
| | Cllr. M.Z.M. Mazibuko |
| | Cllr. L.D. Mndebele |
| | Cllr. T.J. Mnisi |
| | Cllr. P.F. Moloyi |
| | Cllr. T.C. Motha |
| | Cllr. B.N.N. Ndlovu |
| | Cllr. G.E. Ngwenyama |
| | Cllr. D.M. Nkambule |
| | Cllr. N.E. Nkosi |
| | Cllr. T. Nkosi |
| | Cllr. Z.J. Nkosi |
| | Cllr. J.J. Nzimande |
| | Cllr. P.T. Sibeko |
| | Cllr. M. Sibiya |
| | Cllr. B.J.M. Sithole |
| | Cllr. J.T. Soko |
| | Cllr. H.F. Swart |
| Previous councillors | Cllr. J.S. Bongwe |
| | Cllr. B.M. Buthelezi |
| | Cllr. Z.C. Dhludhlu |
| | Cllr. K.H. Dladla |
| | Cllr. S.L. Jele |
| | Cllr. M.C. Lukhele |
| | Cllr. V.C. Madini |

## General Information

| | |
|---|---|
| | Cllr. T.T. Malaza<br>Cllr. B.P. Maseko<br>Cllr. N.G. Mashinini<br>Cllr. D.T. Masina<br>Cllr. S.C. Mathebula<br>Cllr. M.J. Mhlanga<br>Cllr. V.J. Mokoena<br>Cllr. S.J. Msibi<br>Cllr. T.G. Msimango<br>Cllr. B.R. Ngwenya<br>Cllr. D.S. Nkosi<br>Cllr. S.J. Nkosi<br>Cllr. J.H. Sibanyoni<br>Cllr. B.I. Sibiya<br>Cllr. S.E. Vilakazi |
| **Chief Finance Officer (CFO)** | Ms. M.M.P. Matsheka |
| **Accounting Officer** | Mr. Z.T. Shongwe |
| **Registered office** | Civic Centre<br>C/o Kerk and Taute Street<br>Ermelo<br>2350 |
| **Business address** | Civic Centre<br>C/o Kerk and Taute Street<br>Ermelo<br>2350 |
| **Postal address** | PO Box 48<br>Ermelo<br>2350 |
| **Bankers** | Standard Bank Limited |
| **Auditors** | Auditor-General of South Africa<br>Registered Auditors |
| **Attorneys** | Noltes Attorney<br>Gildenhuys Malatji Attorneys<br>TMN Kgomo & Associates<br>Sefalafala Attorneys<br>Mohlala Attorneys |
| **Rounding** | All amounts have been rounded to the nearest R1 |
| **Website** | www.msukaligwa.gov.za |
| **Contact numbers** | Tel: 017 8611 Msuka [086 116 7852]<br>Fax: 017 801 3851 |

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The reports and statements set out below comprise the unaudited annual financial statements presented to the provincial legislature:


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**Abbreviations**

| | |
|---|---|
| CIGFARO | Chartered Institute of Government Finance Audit and Risk Officers |
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP | Generally Recognised Accounting Practice |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| HDF | Housing Development Fund |
| IAS | International Accounting Standards |
| IPSAS | International Public Sector Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |
| NDP | Neighbourhood Development Programme |
| MSIG | Municipal Systems Improvement Grant |
| DORA | Division of Revenue Act |

# Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the unaudited annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the unaudited annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the unaudited annual financial statements and was given unrestricted access to all financial records and related data.

The unaudited annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The unaudited annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the unaudited annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The unaudited annual financial statements set out on pages 6 to 96, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2017 and were signed on its behalf by:

**Mr Z.T. Shongwe**
**Municipal Manager**

# Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2017.

## 1. Review of activities

### Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached unaudited annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 253,771,641 (2016: deficit R 157,040,446)

## 2. Going concern

The unaudited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The pre-approved bank overdraft is R 6,000,000, for liquidity risk and at year end was fully covered. Refer to Risk Managment note 45.

## 3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

## 4. Accounting Officer's interest in contracts

The accounting officer does not have any direct or indirect interest's in contracts.

## 5. Accounting policies

The unaudited annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

## 6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name
Mr. Z.T. Shongwe

## 7. Corporate governance

### General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King III Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

## 8. Bankers

Standard Bank Limited is used for daily operations as well as investing of grant funding.

# Accounting Officer's Report

### 9. Auditors

Auditor-General of South Africa will continue in office for the next financial period.

### 10. Public Private Partnership

In accordance with the PPP agreement, the Contractor shall open a separate account with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:

- moneys deposited as excess surpluses;
- any foreign exchange rate amounts;
- any service credits; and
- any penalties for later service commence mental text.

The municipality has no PPP agreements.

# Statement of Financial Position as at 30 June 2017

| Figures in Rand | Note(s) | 2017 | 2016 Restated* |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Inventories | 7 | 10,800,532 | 10,381,919 |
| Receivables from exchange transactions | 8&11 | 54,345,209 | 50,487,013 |
| Receivables from non-exchange transactions | 9&11 | 11,155,502 | 11,094,594 |
| VAT receivable | 10 | 40,450,193 | 23,456,362 |
| Cash and cash equivalents | 12 | 2,176,317 | 19,263,551 |
| | | **118,927,753** | **114,683,439** |
| **Non-Current Assets** | | | |
| Investment property | 3 | 27,640,994 | 28,957,232 |
| Property, plant and equipment | 4 | 1,777,856,143 | 1,812,097,963 |
| Heritage assets | 5 | 1,069,126 | 1,069,126 |
| | | **1,806,566,263** | **1,842,124,321** |
| **Total Assets** | | **1,925,494,016** | **1,956,807,760** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Finance lease obligation | 13 | 246,279 | 337,942 |
| Payables from exchange transactions | 16 | 688,564,947 | 499,609,149 |
| Consumer deposits | 17 | 13,756,035 | 12,262,283 |
| Employee benefit obligation | 6 | 4,136,095 | 2,992,703 |
| Unspent conditional grants and receipts | 14 | 1,637,293 | 1,661,968 |
| | | **708,340,649** | **516,864,045** |
| **Non-Current Liabilities** | | | |
| Finance lease obligation | 13 | - | 233,761 |
| Employee benefit obligation | 6 | 58,562,175 | 41,071,094 |
| Provisions | 15 | 54,516,230 | 40,792,262 |
| | | **113,078,405** | **82,097,117** |
| **Total Liabilities** | | **821,419,054** | **598,961,162** |
| **Net Assets** | | **1,104,074,962** | **1,357,846,598** |
| Accumulated surplus | | 1,104,074,962 | 1,357,846,598 |

* See Note 42

# Statement of Financial Performance

| Figures in Rand | Note(s) | 2017 | 2016 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Service charges | 19 | 288,691,419 | 265,485,484 |
| Rental of facilities and equipment | 20 | 2,144,514 | 2,072,750 |
| Agency services | | 11,836,121 | 10,993,079 |
| Other income | 21 | 11,353,848 | 17,216,126 |
| Interest received | 22 | 23,881,188 | 23,884,193 |
| **Total revenue from exchange transactions** | | **337,907,090** | **319,651,632** |
| **Revenue from non-exchange transactions** | | | |
| **Taxation revenue** | | | |
| Property rates | 23 | 92,620,875 | 81,095,403 |
| **Transfer revenue** | | | |
| Government grants & subsidies | 24 | 175,206,725 | 170,398,166 |
| Public contributions and donations | 25 | - | 3,489,842 |
| Fines | | 6,345,645 | 7,011,281 |
| **Total revenue from non-exchange transactions** | | **274,173,245** | **261,994,692** |
| **Total revenue** | 18 | **612,080,335** | **581,646,324** |
| **Expenditure** | | | |
| Employee related costs | 26 | (163,434,092) | (152,862,027) |
| Remuneration of councillors | 27 | (12,998,526) | (12,290,330) |
| Depreciation | 28 | (81,089,254) | (81,951,141) |
| Impairment loss/ Reversal of impairments | 29 | (6,408,816) | (12,553,526) |
| Finance costs | 30 | (58,587,556) | (58,141,977) |
| Lease rentals on operating lease | | (1,619,533) | (2,004,526) |
| Debt Impairment | 31 | (67,599,336) | (60,985,955) |
| Repairs and maintenance | | (37,129,070) | (41,226,829) |
| Bulk purchases | 32 | (261,482,455) | (222,406,798) |
| Contracted services | 33 | (119,401,145) | (55,484,758) |
| General Expenses | 34 | (40,900,205) | (36,782,130) |
| **Total expenditure** | | **(850,649,988)** | **(736,689,997)** |
| **Operating deficit** | 36 | **(238,569,653)** | **(155,043,673)** |
| Gain/(loss) on disposal of assets and liabilities | | 680,000 | (1,528,508) |
| Actuarial losses | 6 | (14,845,709) | (306,951) |
| Inventories losses | | (1,036,279) | (161,314) |
| | | **(15,201,988)** | **(1,996,773)** |
| **Deficit for the year** | | **(253,771,641)** | **(157,040,446)** |

* See Note 42

## Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---|---|
| Opening balance as previously reported | 1,542,853,682 | 1,542,853,682 |
| Adjustments | | |
| Prior year adjustments | (27,966,638) | (27,966,638) |
| **Balance at 01 July 2015 as restated*** | **1,514,887,044** | **1,514,887,044** |
| Changes in net assets | | |
| Surplus for the year | (157,040,446) | (157,040,446) |
| Total changes | (157,040,446) | (157,040,446) |
| Opening balance as previously reported | 1,365,153,603 | 1,365,153,603 |
| Adjustments | | |
| Prior year adjustments | (7,307,000) | (7,307,000) |
| **Restated* Balance at 01 July 2016 as restated*** | **1,357,846,603** | **1,357,846,603** |
| Changes in net assets | | |
| Surplus for the year | (253,771,641) | (253,771,641) |
| Total changes | (253,771,641) | (253,771,641) |
| **Balance at 30 June 2017** | **1,104,074,962** | **1,104,074,962** |

Note(s)

The accounting policies on pages 19 to 51 and the notes on pages 52 to 97 form an integral part of the unaudited annual financial statements.

* See Note 42

## Cash Flow Statement

| Figures in Rand | Note(s) | 2017 | 2016 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Property rates taxation | | 92,620,875 | 81,095,403 |
| Sale of goods and services | | 287,841,277 | 296,614,328 |
| Grants | | 181,466,787 | 166,550,679 |
| Interest income | | 23,881,188 | 23,884,193 |
| | | 585,810,127 | 568,144,603 |
| **Payments** | | | |
| Employee costs | | (157,680,109) | (161,524,193) |
| Suppliers | | (339,861,870) | (315,299,095) |
| Finance costs | | (58,545,642) | (58,035,907) |
| | | (556,087,621) | (534,859,195) |
| **Net cash flows from operating activities** | 37 | **29,722,506** | **33,285,408** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 4 | (47,122,400) | (42,694,855) |
| Proceeds from sale of property, plant and equipment | 4 | 680,000 | 37,697 |
| **Net cash flows from investing activities** | | **(46,442,400)** | **(42,657,158)** |
| **Cash flows from financing activities** | | | |
| Finance lease payments | | (367,338) | (1,323,405) |
| **Net cash flows from financing activities** | | **(367,338)** | **(1,323,405)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(17,087,232)** | **(10,695,155)** |
| Cash and cash equivalents at the beginning of the year | | 19,263,551 | 29,958,706 |
| **Cash and cash equivalents at the end of the year** | 12 | **2,176,319** | **19,263,551** |

* See Note 42

# Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Service charges | 309,270,674 | (2,484,812) | **306,785,862** | 288,691,419 | **(18,094,443)** | Refer to Narration area |
| Rental of facilities and equipment | 2,386,084 | 252,386 | **2,638,470** | 2,144,514 | **(493,956)** | Refer to Narration area |
| Agency services | - | 11,653,000 | **11,653,000** | 11,836,121 | **183,121** | Refer to Narration area |
| Other income - (rollup) | 15,742,639 | 1,623,630 | **17,366,269** | 11,353,848 | **(6,012,421)** | Refer to Narration area |
| Interest received - investment | 22,500,000 | 573,000 | **23,073,000** | 23,881,188 | **808,188** | Refer to Narration area |
| **Total revenue from exchange transactions** | **349,899,397** | **11,617,204** | **361,516,601** | **337,907,090** | **(23,609,511)** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Taxation revenue** | | | | | | |
| Property rates | 90,962,808 | 1,679,679 | **92,642,487** | 92,620,875 | **(21,612)** | Refer to Narration area |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 121,443,000 | 3,186,000 | **124,629,000** | 175,206,725 | **50,577,725** | Refer to Narration area |
| Fines, Penalties and Forfeits | 6,300 | 76,075 | **82,375** | 6,345,645 | **6,263,270** | Refer to Narration area |
| **Total revenue from non-exchange transactions** | **212,412,108** | **4,941,754** | **217,353,862** | **274,173,245** | **56,819,383** | |
| **Total revenue** | **562,311,505** | **16,558,958** | **578,870,463** | **612,080,335** | **33,209,872** | |
| **Expenditure** | | | | | | |
| Personnel | (140,500,914) | (22,031,517) | **(162,532,431)** | (163,434,092) | **(901,661)** | Refer to Narration area |
| Remuneration of councillors | (12,104,874) | (1,376,431) | **(13,481,305)** | (12,998,526) | **482,779** | Refer to Narration area |
| Depreciation and amortisation | - | (85,982,143) | **(85,982,143)** | (81,089,254) | **4,892,889** | Refer to Narration area |
| Impairment loss/ Reversal of impairments | - | - | **-** | (6,408,816) | **(6,408,816)** | Refer to Narration area |
| Finance costs | (600,000) | 262,000 | **(338,000)** | (58,587,556) | **(58,249,556)** | Refer to Narration area |
| Lease rentals on operating lease | (1,457,897) | (305,984) | **(1,763,881)** | (1,619,533) | **144,348** | Refer to Narration area |
| Debt Impairment | - | (69,856,773) | **(69,856,773)** | (67,599,336) | **2,257,437** | Refer to Narration area |
| Repairs and maintenance | (36,533,300) | (78,253,162) | **(114,786,462)** | (37,129,070) | **77,657,392** | Refer to Narration area |
| Bulk purchases | (200,000,000) | (51,300,000) | **(251,300,000)** | (261,482,455) | **(10,182,455)** | Refer to Narration area |

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| Contracted Services | (33,175,665) | (24,304,676) | **(57,480,341)** | (119,401,145) | **(61,920,804)** | Refer to Narration area |
| General Expenses | (24,793,130) | (17,236,042) | **(42,029,172)** | (40,900,205) | **1,128,967** | Refer to Narration area |
| **Total expenditure** | **(449,165,780)** | **(350,384,728)** | **(799,550,508)** | **(850,649,988)** | **(51,099,480)** | |
| **Operating deficit** | **113,145,725** | **(333,825,770)** | **(220,680,045)** | **(238,569,653)** | **(17,889,608)** | |
| Gain on disposal of assets and liabilities | 1,000,000 | 1,000,000 | **2,000,000** | 680,000 | **(1,320,000)** | Refer to Narration area |
| Actuarial gains/losses | - | - | **-** | (14,845,709) | **(14,845,709)** | Refer to Narration area |
| Inventories losses/write-downs | - | - | **-** | (1,036,279) | **(1,036,279)** | Refer to Narration area |
| | **1,000,000** | **1,000,000** | **2,000,000** | **(15,201,988)** | **(17,201,988)** | |
| **Deficit before taxation** | **114,145,725** | **(332,825,770)** | **(218,680,045)** | **(253,771,641)** | **(35,091,596)** | |
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **114,145,725** | **(332,825,770)** | **(218,680,045)** | **(253,771,641)** | **(35,091,596)** | |

**Reconciliation**

# Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Position** | | | | | | |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Inventories | - | - | - | 10,800,532 | **10,800,532** | Refer to Narration area |
| Receivables from exchange transactions | - | - | - | 9,687,524 | **9,687,524** | Refer to Narration area |
| Receivables from non-exchange transactions | - | - | - | 11,155,502 | **11,155,502** | Refer to Narration area |
| VAT receivable | - | - | - | 40,450,193 | **40,450,193** | Refer to Narration area |
| Cash and cash equivalents | - | - | - | 2,176,317 | **2,176,317** | Refer to Narration area |
| | **-** | **-** | **-** | **74,270,068** | **74,270,068** | |
| **Non-Current Assets** | | | | | | |
| Investment property | - | - | - | 27,640,994 | **27,640,994** | Refer to Narration area |
| Property, plant and equipment | - | - | - | 1,777,856,143 | **1,777,856,143** | Refer to Narration area |
| Heritage assets | - | - | - | 1,069,126 | **1,069,126** | Refer to Narration area |
| | **-** | **-** | **-** | **1,806,566,263** | **1,806,566,263** | |
| **Total Assets** | **-** | **-** | **-** | **1,880,836,331** | **1,880,836,331** | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Finance lease obligation | - | - | - | 246,279 | **246,279** | Refer to Narration area |
| Payables from exchange transactions | - | - | - | 688,564,945 | **688,564,945** | Refer to Narration area |
| Consumer deposits | - | - | - | 13,756,035 | **13,756,035** | Refer to Narration area |
| Employee benefit obligation | - | - | - | 4,136,095 | **4,136,095** | |
| Unspent conditional grants and receipts | - | - | - | 1,637,293 | **1,637,293** | Refer to Narration area |
| | **-** | **-** | **-** | **708,340,647** | **708,340,647** | |
| **Non-Current Liabilities** | | | | | | |
| Employee benefit obligation | - | - | - | 58,562,175 | **58,562,175** | Refer to Narration area |
| Provisions | - | - | - | 54,516,230 | **54,516,230** | Refer to Narration area |
| | **-** | **-** | **-** | **113,078,405** | **113,078,405** | |
| **Total Liabilities** | **-** | **-** | **-** | **821,419,052** | **821,419,052** | |
| **Net Assets** | **-** | **-** | **-** | **1,059,417,279** | **1,059,417,279** | |

# Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Net Assets** | | | | | | |
| **Net Assets Attributable to Owners of Controlling Entity** | | | | | | |
| **Reserves** | | | | | | |
| Accumulated surplus | - | - | **-** | 1,059,417,279 | **1,059,417,279** | Refer to Narration area |

# Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|

The accounting policies on pages 19 to 51 and the notes on pages 52 to 97 form an integral part of the unaudited annual financial statements.

**Statement of Financial Position**

1)Inventories - High value infrastructure assets kept in inventory for emergency works
2)Receivables from exchange transactions - Not budgeted
3)Receivables from non-exchange transactions - Not budgeted
4)VAT Receivable - Not budgeted
5)Consumer debtors - Slow payment rate and inversed revenue
6)Other debtors - Not budgeted
7)Cash and cash equivalents - Liabilities not reduced as at year end.
8)Investment property - Reallocation of property to PPE
9)Property, plant and equipment - Incorrect depreciation calculation on budget system
10)Heritage assets - Not budgeted
11)Intangible assets - Incorrect budget allocation.
12)Finance lease obligation - Not budgeted
13)Payables from exchange transactions - Bulk creditors not budgeted
14)Consumer deposits - Increase in deposits raised
15)Employee benefit obligation - Increase of salaries for future obligations.
16)Unspent conditional grants and receipts - Not budgeted
17)Provisions - Increase in provision due to closure cost estimates.

**Revenue from exchange transactions**

1) Service charges: Water meters not installed and tampering on electricity, billing of water and electricity reduced
2) Rental of facilities and equipment: Facilities and equipment is not properly maintained therefore the need for renting it decline.
3 )Agency services: Higher volume of sales in the last quarter of the year
4) Other income (roll up):Due to re-classification of other charges
5) Interest received – investment: The increasing debt book attracted increased interest Revenue from non-exchange transactions
6) Property rates: Due to supplementary valuations
7) Government grants: DORA publication include an adjusted figure for the Equitable share, which was budget for, but the publication was in fact for the prior year's amount which was held back. The MIG allocation was reduce, 11 Million was withheld
8) Public contributions and donations: Budget include in-kind contributions from Eskom and Regional Bulk
9) Fines: Increase in fines issued

Expenditure

1) Personnel: Provision for employee cost and high vacancy rate result in higher overtime and standby allowance
2) Remuneration of councillors:
3) Depreciation: Reworking of Final Asset Register
4) Finance cost: Eskom interest charges
5) Lease rentals on operating lease:Not a budgeting vote in MTRF
6) Bad debts written off: Provision of debt impairment increase
7) Repair and Maintenance: Capital projects budgeted in the capital budget were repair and maintenance projects
8) Bulk purchases: The provision in the budget for water purchase was insufficient. The municipality is in a dispute with Department of Water on the correct billing of water.
9) Loss on disposal of assets and liabilities: Not a budgeting vote
10) Actuarial gains/losses: Not a budgeting vote
11) Contracted Service: Reclassification of accounts
12) General Expenses: Reclassification of accounts

## Appropriation Statement

Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | | | | | |
| **Financial Performance** | | | | | | | | | | | |
| Property rates | 90,962,808 | 1,679,679 | 92,642,487 | - | | 92,642,487 | 92,620,875 | | (21,612) | 100 % | 102 % |
| Service charges | 309,270,674 | (2,484,812) | 306,785,862 | - | | 306,785,862 | 288,691,419 | | (18,094,443) | 94 % | 93 % |
| Investment revenue | 22,500,000 | 573,000 | 23,073,000 | - | | 23,073,000 | 23,881,188 | | 808,188 | 104 % | 106 % |
| Transfers recognised - operational | 121,443,000 | 3,186,000 | 124,629,000 | - | | 124,629,000 | 124,505,107 | | (123,893) | 100 % | 103 % |
| Other own revenue | 19,135,023 | 14,605,091 | 33,740,114 | - | | 33,740,114 | 32,360,128 | | (1,379,986) | 96 % | 169 % |
| **Total revenue (excluding capital transfers and contributions)** | **563,311,505** | **17,558,958** | **580,870,463** | **-** | | **580,870,463** | **562,058,717** | | **(18,811,746)** | **97 %** | **100 %** |
| Employee costs | (140,500,914) | (22,031,517) | (162,532,431) | - | - | (162,532,431) | (163,434,092) | (901,661) | (901,661) | 101 % | 116 % |
| Remuneration of councillors | (12,104,874) | (1,376,431) | (13,481,305) | - | - | (13,481,305) | (12,998,526) | - | 482,779 | 96 % | 107 % |
| Debt impairment | - | (69,856,773) | (69,856,773) | | | (69,856,773) | (67,599,336) | - | 2,257,437 | 97 % | DIV/0 % |
| Depreciation and asset impairment | - | (85,982,143) | (85,982,143) | | | (85,982,143) | (87,498,070) | (1,515,927) | (1,515,927) | 102 % | DIV/0 % |
| Finance charges | (600,000) | 262,000 | (338,000) | - | - | (338,000) | (58,587,556) | (58,249,556) | (58,249,556) | 17,334 % | 9,765 % |
| Materials and bulk purchases | (200,000,000) | (51,300,000) | (251,300,000) | - | - | (251,300,000) | (261,482,455) | (10,182,455) | (10,182,455) | 104 % | 131 % |
| Other expenditure | (95,959,992) | (120,099,864) | (216,059,856) | - | - | (216,059,856) | (214,931,941) | - | 1,127,915 | 99 % | 224 % |
| **Total expenditure** | **(449,165,780)** | **(350,384,728)** | **(799,550,508)** | **-** | **-** | **(799,550,508)** | **(866,531,976)** | **(70,849,599)** | **(66,981,468)** | **108 %** | **193 %** |
| **Surplus/(Deficit)** | **114,145,725** | **(332,825,770)** | **(218,680,045)** | **-** | | **(218,680,045)** | **(304,473,259)** | | **(85,793,214)** | **139 %** | **(267)%** |

## Appropriation Statement

| Figures in Rand | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Transfers recognised - capital | - | - | - | - | | - | 50,701,618 | | 50,701,618 | DIV/0 % | DIV/0 % |
| **Surplus (Deficit) after capital transfers and contributions** | **114,145,725** | **(332,825,770)** | **(218,680,045)** | **-** | | **(218,680,045)** | **(253,771,641)** | | **(35,091,596)** | **116 %** | **(222)%** |
| **Surplus/(Deficit) for the year** | **114,145,725** | **(332,825,770)** | **(218,680,045)** | **-** | | **(218,680,045)** | **(253,771,641)** | | **(35,091,596)** | **116 %** | **(222)%** |

**Capital expenditure and funds sources**

**Cash flows**

| Figures in Rand | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net cash from (used) operating | - | - | - | - | | - | 29,722,506 | | 29,722,506 | DIV/0 % | DIV/0 % |
| Net cash from (used) investing | - | - | - | - | | - | (46,442,400) | | (46,442,400) | DIV/0 % | DIV/0 % |
| Net cash from (used) financing | - | - | - | - | | - | (367,338) | | (367,338) | DIV/0 % | DIV/0 % |
| **Net increase/(decrease) in cash and cash equivalents** | **-** | **-** | **-** | **-** | | **-** | **(17,087,232)** | | **(17,087,232)** | **DIV/0 %** | **DIV/0 %** |
| Cash and cash equivalents at the beginning of the year | - | - | - | - | | - | 19,263,551 | | 19,263,551 | DIV/0 % | DIV/0 % |
| **Cash and cash equivalents at year end** | **-** | **-** | **-** | **-** | | **-** | **2,176,319** | | **(2,176,319)** | **DIV/0 %** | **DIV/0 %** |

# Accounting Policies

### 1. Presentation of Unaudited Annual Financial Statements

The unaudited annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These unaudited annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these unaudited annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

### 1.1 Presentation currency

These unaudited annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

### 1.2 Going concern assumption

These unaudited annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the unaudited annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the unaudited annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the unaudited annual financial statements. Significant judgements include:

**Trade receivables / Held to maturity investments and/or loans and receivables**

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

**Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

### 1.3 Significant judgements and sources of estimation uncertainty (continued)

**Impairment testing**

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors .

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

**Useful lives of property, plant and equipment**

The municipality's management determines the estimated useful lives and related depreciation charges for plant and equipment.This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

**Post retirement benefits**

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

**Effective interest rate**

The municipality used the prime interest rate to discount future cash flows.

**Allowance for doubtful debts**

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

**Offsetting**

All assets and liabilities been grossed up (i.e. not offset against each other), except where offsetting is required or permitted by a Standard of GRAP or where offsetting reflects the substance of the transaction or other event,

### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

**Cost model**

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

| Item | Useful life |
|---|---|
| Property - land | Indefinite |
| Property - buildings | 30 years |

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

### 1.5 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Depreciation method | Average useful life |
|---|---|---|
| Land | Straight line | Indefinite |
| Buildings | Straight line | 20 - 50 years |
| Plant and machinery | Straight line | 2 - 15 years |
| Furniture and fixtures | Straight line | 2 - 15 years |
| Motor vehicles | Straight line | 2 - 15 years |
| Office equipment | Straight line | 2 - 15 years |
| IT equipment | Straight line | 2 - 5 years |
| Computer software | Straight line | 1 year |
| Workshop equipment | Straight line | 2 - 5 years |
| Infrastructure | Straight line | 1 - 65 years |
| Community | Straight line | 2 - 50 years |
| Other property, plant and equipment | Straight line | 1 - 5 years |

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.5 Property, plant and equipment (continued)

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality’s operations that is shown as a single item for the purpose of disclosure in the unaudited annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset’s net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

### 1.7 Heritage assets (continued)

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset’s remaining service potential.

**Recognition**

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

**Initial measurement**

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

**Subsequent measurement**

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset’s carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset’s carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

**Impairment**

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

**Transfers**

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

**Derecognition**

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an municipality's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

# Accounting Policies

### 1.8 Financial instruments (continued)

Liquidity risk is the risk encountered by an municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an municipality's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an municipality.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

### 1.8 Financial instruments (continued)

#### Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|---|---|
| Trade receivables from Exchange transactions | Financial asset measured at amortised cost |
| Financial asset measured at amortised cost | Financial asset measured at amortised cost |
| Trade receivables from Non - Exchange transactions | Financial asset measured at amortised cost |
| Investments | Financial asset measured at amortised cost |
| Cash and cash equivalents | Financial asset measured at fair value |

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|---|---|
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Consumer deposits | Financial liability measured at amortised cost |
| VAT Payable | Financial liability measured at amortised cost |
| Unspent conditional grants | Financial liability measured at amortised cost |
| Employee benefit provisions | Financial liability measured at amortised cost |
| Provisions | Financial liability measured at fair value |

#### Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value.

# Accounting Policies

### 1.8 Financial instruments (continued)

**Subsequent measurement of financial assets and financial liabilities**

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

**Fair value measurement considerations**

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal operating considerations. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

**Reclassification**

The municipality does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

**Gains and losses**

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

**Impairment and uncollectibility of financial assets**

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

## Accounting Policies

### 1.8 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

### 1.8 Financial instruments (continued)

**Derecognition**

**Financial assets**

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

**Financial liabilities**

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

# Accounting Policies

### 1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

### 1.9 Statutory receivables

#### Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

#### Recognition

The municipality recognises statutory receivables as follows:
- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

#### Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

#### Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and

**1.9 Statutory receivables (continued)**

- amounts derecognised.

**Accrued interest**

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

**Other charges**

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

**Impairment losses**

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

**Derecognition**

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or

## Accounting Policies

**1.9 Statutory receivables (continued)**

- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognise the receivable; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

### 1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

**Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

**Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

**Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or

### 1.11 Inventories (continued)

- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.12 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

**1.12 Impairment of cash-generating assets (continued)**

**Identification**

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

**Value in use**

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

**Basis for estimates of future cash flows**

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

**Composition of estimates of future cash flows**

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

**Discount rate**

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

### 1.12 Impairment of cash-generating assets (continued)

**Recognition and measurement (individual asset)**

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

**Cash-generating units**

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

**1.12 Impairment of cash-generating assets (continued)**

**Reversal of impairment loss**

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

**Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

**1.13 Impairment of non-cash-generating assets**

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

### 1.13 Impairment of non-cash-generating assets (continued)

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow: [Specify criteria]

**Identification**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

**Value in use**

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

**Depreciated replacement cost approach**

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

### 1.13 Impairment of non-cash-generating assets (continued)

**Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

**Reversal of an impairment loss**

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

**Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.14 Employee benefits

Employee benefits are all forms of consideration given by an emunicipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

### 1.14 Employee benefits (continued)

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

**Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

**Post-employment benefits**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

# Accounting Policies

### 1.14 Employee benefits (continued)

**Post-employment benefits: Defined benefit plans**

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

### 1.14 Employee benefits (continued)

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the unaudited annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

### 1.14 Employee benefits (continued)

**Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

**Termination benefits**

The municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

### 1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

### 1.15 Provisions and contingencies (continued)

The discount rate reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;

# Accounting Policies

### 1.15 Provisions and contingencies (continued)

- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

**Levies**

A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards, and
- fines or other penalties that are imposed for breaches of the legislation.

Government refers to government, government agencies and similar bodies whether local, national or international.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The municipality does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the municipality being economically compelled to continue to operate in that future period. The preparation of financial statements under the going concern assumption does not imply that the municipality has a present obligation to pay a levy that will be triggered by operating in a future period.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time).

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

### 1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

### 1.17 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

**Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

**Interest**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

**Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

**Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

### 1.18 Revenue from non-exchange transactions (continued)

#### Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

#### Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

#### Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

### 1.19 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

### 1.20 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.21 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.22 Accounting by principals and agents

**Identification**

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

**Identifying whether an entity is a principal or an agent**

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether an municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

**Binding arrangement**

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

**Assessing which entity benefits from the transactions with third parties**

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:
- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

**Recognition**

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

### 1.23 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.24 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.25 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.26 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.27 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2016 to 30/06/2017.

The budget for the economic entity includes all the entities approved budgets under its control.

The unaudited annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.28 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

# Accounting Policies

### 1.28 Related parties (continued)

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

### 1.29 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

## 2. New standards and interpretations

### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| • GRAP 34: Separate Financial Statements | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 35: Consolidated Financial Statements | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 36: Investments in Associates and Joint Ventures | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 37: Joint Arrangements | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 38: Disclosure of Interests in Other Entities | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 110: Living and Non-living Resources | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 12 (as amended 2016): Inventories | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 27 (as amended 2016): Agriculture | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 31 (as amended 2016): Intangible Assets | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 103 (as amended 2016): Heritage Assets | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 110 (as amended 2016): Living and Non-living Resources | 01 April 2018 | Unlikely there will be a material impact |
| • IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecogntion of Land | 01 April 2019 | Unlikely there will be a material impact |
| • Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 20: Related parties | 01 April 2017 | Unlikely there will be a material impact |
| • GRAP 26 (as amended 2016): Impairment of cash-generating assets | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 109: Accounting by Principals and Agents | 01 April 2017 | Unlikely there will be a material impact |
| • GRAP 21 (as amended 2016): Impairment of non-cash-generating assets | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 18 (as amended 2016): Segment Reporting | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 17 (as amended 2016): Property, Plant and Equipment | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 16 (as amended 2016): Investment Property | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 106 (as amended 2016): Transfers of functions between entities not under common control | 01 April 2018 | Unlikely there will be a material impact |

### 3. Investment property

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Investment property | 39,487,134 | (11,846,140) | 27,640,994 | 39,487,134 | (10,529,902) | 28,957,232 |
| **Total** | **39,487,134** | **(11,846,140)** | **27,640,994** | **39,487,134** | **(10,529,902)** | **28,957,232** |

**Reconciliation of investment property - 2017**

| | **Opening balance** | **Depreciation** | **Total** |
|---|---|---|---|
| Investment property | 28,957,232 | (1,316,238) | 27,640,994 |
| | **28,957,232** | **(1,316,238)** | **27,640,994** |

**Reconciliation of investment property - 2016**

| | **Opening balance** | **Depreciation** | **Total** |
|---|---|---|---|
| Investment property | 30,273,469 | (1,316,237) | 28,957,232 |
| | **30,273,469** | **(1,316,237)** | **28,957,232** |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 4. Property, plant and equipment

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Land | 189,904,660 | - | 189,904,660 | 189,904,660 | - | 189,904,660 |
| Buildings | 132,039,434 | (39,611,830) | 92,427,604 | 132,039,434 | (35,210,516) | 96,828,918 |
| Plant and machinery | 1,772,760 | (1,349,409) | 423,351 | 1,801,791 | (1,230,626) | 571,165 |
| Furniture and fixtures | 7,183,137 | (5,235,251) | 1,947,886 | 7,200,562 | (4,620,129) | 2,580,433 |
| Motor vehicles | 18,803,665 | (9,211,870) | 9,591,795 | 17,854,130 | (6,375,785) | 11,478,345 |
| Office equipment | 1,044,490 | (741,875) | 302,615 | 1,140,060 | (698,223) | 441,837 |
| IT equipment | 2,643,853 | (1,418,808) | 1,225,045 | 2,322,917 | (1,279,237) | 1,043,680 |
| Work in progress | 67,021,777 | - | 67,021,777 | 22,171,094 | - | 22,171,094 |
| Community | 84,060,841 | (24,170,461) | 59,890,380 | 82,388,347 | (21,476,985) | 60,911,362 |
| Landfill sites | 4,409,731 | - | 4,409,731 | 4,409,731 | - | 4,409,731 |
| Infrastructure - Generation | 402,398,998 | (136,967,667) | 265,431,331 | 402,398,998 | (126,907,609) | 275,491,389 |
| Infrastructure - Reticulation | 38,036 | (20,423) | 17,613 | 38,036 | (19,662) | 18,374 |
| Infrastructure - Roads, Pavements & Bridges | 891,569,286 | (445,277,112) | 446,292,174 | 891,569,286 | (403,668,704) | 487,900,582 |
| Infrastructure - Sewerage | 617,030,380 | (242,949,915) | 374,080,465 | 617,030,380 | (232,146,420) | 384,883,960 |
| Infrastructure - Transportation | 7,482,550 | (4,489,530) | 2,993,020 | 7,482,550 | (4,115,402) | 3,367,148 |
| Infrastructure - Water purification | 378,470,201 | (117,655,002) | 260,815,199 | 378,470,201 | (109,881,810) | 268,588,391 |
| Leased assets | 1,265,541 | (401,523) | 864,018 | 1,619,242 | (441,664) | 1,177,578 |
| Other assets | 1,111,656 | (894,177) | 217,479 | 1,117,442 | (788,126) | 329,316 |
| **Total** | **2,808,250,996** | **(1,030,394,853)** | **1,777,856,143** | **2,760,958,861** | **(948,860,898)** | **1,812,097,963** |

### 4. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - 2017**

| | Opening balance | Additions | Transfers | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|
| Land | 189,904,660 | - | - | - | - | 189,904,660 |
| Buildings | 96,828,918 | - | - | (4,401,314) | - | 92,427,604 |
| Plant and machinery | 571,165 | - | - | (142,097) | (5,717) | 423,351 |
| Furniture and fixtures | 2,580,433 | 103,704 | - | (712,343) | (23,908) | 1,947,886 |
| Motor vehicles | 11,478,345 | - | 159,733 | (549,765) | (1,496,518) | 9,591,795 |
| Office equipment | 441,837 | - | - | (114,213) | (25,009) | 302,615 |
| IT equipment | 1,043,680 | 495,519 | - | (275,835) | (38,319) | 1,225,045 |
| Work in progress | 22,171,094 | 46,523,177 | (1,672,494) | - | - | 67,021,777 |
| Community | 60,911,362 | - | 1,672,494 | (2,693,476) | - | 59,890,380 |
| Landfill sites | 4,409,731 | - | - | - | - | 4,409,731 |
| Infrastructure - Generation | 275,491,389 | - | - | (10,060,058) | - | 265,431,331 |
| Infrastructure - Reticulation | 18,374 | - | - | (761) | - | 17,613 |
| Infrastructure - Roads, Pavements & Bridges | 487,900,582 | - | - | (41,608,408) | - | 446,292,174 |
| Infrastructure - Sewerage | 384,883,960 | - | - | (10,803,495) | - | 374,080,465 |
| Infrastructure - Transportation | 3,367,148 | - | - | (374,128) | - | 2,993,020 |
| Infrastructure - Water purification | 268,588,391 | - | - | (7,773,192) | - | 260,815,199 |
| Leased assets | 1,177,578 | - | (159,733) | (153,827) | - | 864,018 |
| Other assets | 329,316 | - | - | (110,101) | (1,736) | 217,479 |
| | **1,812,097,963** | **47,122,400** | **-** | **(79,773,013)** | **(1,591,207)** | **1,777,856,143** |

### 4. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - 2016**

| | Opening balance | Additions | Disposals | Transfers | Depreciation | Impairment loss | Impairment reversal | Total |
|---|---|---|---|---|---|---|---|---|
| Land | 184,646,044 | 2,370,175 | - | 2,888,441 | - | - | - | 189,904,660 |
| Buildings | 102,745,389 | - | (1,464,802) | - | (4,451,669) | - | - | 96,828,918 |
| Plant and machinery | 949,092 | - | (1,724) | - | (221,332) | (154,871) | - | 571,165 |
| Furniture and fixtures | 2,847,264 | 431,774 | (560) | - | (689,858) | (8,187) | - | 2,580,433 |
| Motor vehicles | 10,327,465 | - | (61,674) | 1,831,776 | (569,867) | (222,556) | 173,201 | 11,478,345 |
| Office equipment | 474,493 | 88,114 | (3,766) | - | (105,803) | (11,201) | - | 441,837 |
| IT equipment | 998,955 | 249,321 | (1,067) | - | (186,921) | (16,608) | - | 1,043,680 |
| Work in progress | 10,831,269 | 39,555,471 | - | (28,215,646) | - | - | - | 22,171,094 |
| Community | 62,226,233 | - | - | 1,444,220 | (2,733,303) | (25,788) | - | 60,911,362 |
| Landfill sites | 4,409,731 | - | - | - | - | - | - | 4,409,731 |
| Infrastructure - Generation | 269,916,458 | - | - | 16,153,795 | (9,985,610) | (593,254) | - | 275,491,389 |
| Infrastructure - Reticulation | 27,679 | - | - | - | (995) | (8,310) | - | 18,374 |
| Infrastructure - Roads, Pavements & Bridges | 528,513,096 | - | (2,207) | 3,244,828 | (41,978,816) | (1,876,319) | - | 487,900,582 |
| Infrastructure - Sewerage | 399,236,870 | - | - | - | (10,925,160) | (3,427,750) | - | 384,883,960 |
| Infrastructure - Transportation | 3,741,275 | - | - | - | (374,127) | - | - | 3,367,148 |
| Infrastructure - Water purification | 272,581,828 | - | - | 4,484,362 | (7,765,301) | (712,498) | - | 268,588,391 |
| Leased Assets | 3,516,807 | - | - | (1,831,776) | (507,453) | - | - | 1,177,578 |
| Other assets | 479,249 | - | (30,405) | - | (119,528) | - | - | 329,316 |
| | **1,858,469,197** | **42,694,855** | **(1,566,205)** | **-** | **(80,615,743)** | **(7,057,342)** | **173,201** | **1,812,097,963** |

**Pledged as security**

None of the investment property has been pledged as security.

# Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 4. Property, plant and equipment (continued)

**Depreciation rates**

| | | |
|---|---|---|
| Land | Straight line | Idefinate |
| Buildings | Straight line | 20 - 50 Years |
| Leasehold property | Straight line | 5 Years |
| Plant and machinery | Straight line | 2 - 15 Years |
| Furniture and fixtures | Straight line | 2 - 10 Years |
| Motor vehicles | Straight line | 2 - 10 Years |
| Office equipment | Straight line | 2 -10 Years |
| IT equipment | Straight line | 2 - 5 Years |
| Computer software | Straight line | 1 Year |
| Community | Straight line | 2 - 50 Years |
| Other property, plant and equipment | Straight line | 5 Years |
| Workshop equipment | Straight line | 5 Years |
| Infrastructure - Electricity Generation | Straight line | 1 - 65 Years |
| Infrastructure - Electricity Reticulation | Straight line | 1 - 65 Years |
| Infrastructure - Roads, Pavements & Bridges | Straight line | 1 - 65 Years |
| Infrastructure - Sewerage | Straight line | 1 - 65 Years |
| Infrastructure - Transportation | Straight line | 1 - 65 Years |
| Infrastructure - Water purification | Straight line | 1 - 65 Years |

**Reconciliation of Work-in-Progress 2017**

| | Included within Infrastructure | Total |
|---|---|---|
| Opening balance | 22,171,093 | 22,171,093 |
| Additions/capital expenditure | 46,523,177 | 46,523,177 |
| Transferred to completed items | (1,672,494) | (1,672,494) |
| | **67,021,776** | **67,021,776** |

**Reconciliation of Work-in-Progress 2016**

| | Included within Infrastructure | Total |
|---|---|---|
| Opening balance | 10,831,269 | 10,831,269 |
| Additions/capital expenditure | 39,555,471 | 39,555,471 |
| Transferred to completed items | (28,215,646) | (28,215,646) |
| | **22,171,094** | **22,171,094** |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

## Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

**5. Heritage assets**

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated impairment losses** | **Carrying value** | **Cost / Valuation** | **Accumulated impairment losses** | **Carrying value** |
| **Heritage assets which fair values cannot be reliably measured: (Para .94)** | | | | | | |
| Art Collections, antiquities and exhibits | 1,069,126 | - | 1,069,126 | 1,069,126 | - | 1,069,126 |
| **Total** | **1,069,126** | **-** | **1,069,126** | **1,069,126** | **-** | **1,069,126** |

**Reconciliation of heritage assets 2017**

| | **Opening balance** | **Total** |
|---|---|---|
| **Heritage assets which fair values cannot be reliably measured: (Para .94)** | | |
| Art Collections, antiquities and exhibits | 1,069,126 | 1,069,126 |
| | **1,069,126** | **1,069,126** |

**Reconciliation of heritage assets 2016**

| | **Opening balance** | **Total** |
|---|---|---|
| **Heritage assets which fair values cannot be reliably measured: (Para .94)** | | |
| Art Collections, antiquities and exhibits | 1,069,126 | 1,069,126 |
| | **1,069,126** | **1,069,126** |

### 6. Employee benefit obligations

**Defined benefit plan**

The plan is a post employment medical benefit plan and long service awards.

**Post retirement benefit plan**

**Introduction**

In estimating the unfunded liability for LSA of Msukaligwa Municipality a number of assumptions are required. GRAP 25 requires the actuarial assumptions to be unbiased (i.e. neither imprudent nor excessively conservative) and mutually compatible (i.e. reflective of the economic relationships between factors such as return on assets and inflation rates). This appendix reviews the most important of these assumptions.

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member’s death-in-service or deathin-retirement, the surviving dependants may continue membership of the medical scheme.

**Components of Health Care Liabilities**

Contribution rates tables are based only on type and number of dependants, and income. As expected health care costs (or claims) tend to increase with average age, younger (in-service) members generally subsidise older (continuation) members.

**Contributions-based Liability:** This is the present value of all future post-retirement health care contributions expected to become payable under the employer’s health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside today to cover all expected post-retirement health care contributions (both the employer and continuation members’ shares) for the current membership.

**Benefits-based Liability:** This is the present value of all future post-retirement health care costs expected to become payable under the employer’s health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside in today’s terms to cover all expected post-retirement health care benefits payable for the current membership, ignoring what contributions may be payable.

**Cross-subsidy Liability:** This is the difference between the Benefits-based Liability and the Contributions-based Liability, as defined above. It may be regarded as the amount of money in present-day terms that is expected to flow from other members of the medical scheme(s) in question, to cover the shortfall between post-retirement benefits and contributions payable. These other members are generally in-service members of the employer, and/or of other employers participating in the medical scheme(s).

**Past-service and future-service liability:** Liabilities of an employer may be split between a past-service (or accrued) element and a future-service element. This serves to recognise the manner in which the accounting standards suggest that the liabilities be accrued uniformly over an employee’s period of service. The method of accrual that has been used in this valuation is based on length of service at the valuation date relative to total potential service until the expected retirement date. For example, a 40-year-old in-service member with 15 years of service and an expected retirement age of 60 has a total potential service of 35 years. In this case, assuming that the member “earns” an equal share for each year of service, the past-service liability assumed to have accrued at the valuation date, is then 15/35 of the total liability. The future service liability is the difference between the total liability and the past-service liability. The current service cost for the following year is determined as the amount assumed to accrue to the member over the next 12 months. In this example, this amounts to 1/35 of the total liability.
Given the process described above, the liability in respect of current continuation members may be regarded as fully accrued, and is therefore not split between a past-service (or accrued) and future-service element. It should be noted that, in cases where the employer continues to pay a health care subsidy to the widow[er] and/or children of employees who die while in service, there is a liability contingent upon the death of an employee prior to retirement. This so-called Death-in-service Liability would be regarded as a post-employment liability under the requirements of GRAP 25.

**6. Employee benefit obligations (continued)**

**Accrued Liability:** In defining what liability the employer should focus on for accounting purposes, a sensible starting point is the value of the employer's share of the Contributions-based Liability. This is based on the subsidy policy in question, whether it is defined via contracts of employment or established practice.

**Cross-subsidy Liability:** The employer's share of the Cross-subsidy Liability (as defined above) may in certain circumstances be regarded as a contingent liability of the employer. For example, should the law governing medical aid schemes be changed in future to allow for age-based contribution rates. This potential liability has not been evaluated as part of this exercise.

**Unfunded Accrued Liability:** This is the difference between the Accrued (or past-service) Liability and the value of any off balance sheet assets that have been accumulated specifically by the employer to provide for its post-retirement health care liabilities. Given the process described above, the liability in respect of current continuation members may be regarded as fully accrued, and is therefore not split between a past-service (or accrued) and future-service element.

**Long service awards**

The Municipality offers employees LSA for every five years of service completed, from five years of service to 45 years of service, inclusive completed Service (in years) Long Service Bonuses (% of Annual Salary) Description
5 2% 5/250 x annual salary
10 4% 10 / 250 x annual salary
15 8% 20 / 250 x annual salary
20,25,30,35,40,45 12% 30 / 250 x annual salary

**Financial Assumptions**

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

**Discount Rate:** GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.
Consequently, a discount rate of 8.42% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 8.42% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 2.55%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Johannesburg Stock Exchange after the market close on 30 June 2017.

**Salary Inflation Rate:** This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation. The expected inflation assumption of 5.24% was obtained from the differential between market yields on index-linked bonds (2.55%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.42%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as ((1+8.42%-0.50%)/(1+2.55%))-1. Thus, a general salary inflation rate of 6.24% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 2.05%.
It has been assumed that the next salary increase will take place on 1 July 2018.

**Demographic Assumptions**

Demographic assumptions are required about the future characteristics of current employees who are eligible for LSA. Promotional Salary Scale: The annual inflation rates below are in addition to the General Salary Inflation assumption of 7.14% per annum for all employees.

**Pre-retirement Mortality:** SA85-90 ultimate table, adjusted down for female lives. Average Retirement Age: The normal retirement age is 65. It has been assumed that employees will retire at age 63 on average, which implicitly makes an allowance for expected rates of early and illhealth retirement.

# Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
| --- | --- | --- |

## 6. Employee benefit obligations (continued)

**The amounts recognised in the statement of financial position are as follows:**

| | | |
| --- | --- | --- |
| **Carrying value** | | |
| Present value of the defined benefit obligation-wholly unfunded | (62,698,270) | (44,063,797) |
| | **(62,698,270)** | **(44,063,797)** |
| Non-current liabilities | (58,562,175) | (41,071,094) |
| Current liabilities | (4,136,095) | (2,992,703) |
| | **(62,698,270)** | **(44,063,797)** |

**Net expense recognised in the statement of financial performance**

| | | |
| --- | --- | --- |
| Current service cost | 1,385,741 | 1,281,009 |
| Expected benefit vesting | (3,308,357) | (2,691,608) |
| Interest cost | 3,788,764 | 3,321,213 |
| Actuarial (gains)/losses | 16,768,325 | 1,717,550 |
| | **18,634,473** | **3,628,164** |

**Calculation of actuarial gains and losses**

| | | |
| --- | --- | --- |
| Actuarial (gains) losses – Obligation | 18,634,473 | 3,628,164 |
| | **18,634,473** | **3,628,164** |

## 7. Inventories

| | | |
| --- | --- | --- |
| Inventories | 10,499,817 | 10,033,040 |
| Water | 300,715 | 348,879 |
| | **10,800,532** | **10,381,919** |
| Carrying value of inventories carried at fair value less costs to sell | 10,746,951 | 10,381,919 |

**Inventory pledged as security**

None of the inventory has been pledged as security.

## Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 8. Receivables from exchange transactions

| | | |
|---|---|---|
| Trade debtors | 8,984,682 | 7,319,648 |
| Sundry debtors | 821,874 | 1,819,020 |
| Payments made in advance | - | 1,899,899 |
| Other debtors #1 | (119,032) | - |
| Consumer debtors - Electricity | 20,124,011 | 18,643,900 |
| Consumer debtors - Water | 11,016,509 | 10,292,751 |
| Consumer debtors - Sewerage | 4,469,431 | 4,330,270 |
| Consumer debtors - Refuse | 5,484,867 | 3,837,603 |
| Consumer debtors - Other | 3,562,867 | 2,343,922 |
| | **54,345,209** | **50,487,013** |

**Trade and other receivables pledged as security**

There are no consumer debtors pleged as security for overdraft facilities.

**Credit quality of trade and other receivables**

**Trade receivables**

| **Counterparties with external credit rating (Moody's)** | | |
|---|---|---|
| Baa3 | 54,596,161 | 50,487,013 |
| | **54,596,161** | **50,487,013** |

**Fair value of trade and other receivables**

| | | |
|---|---|---|
| Trade and other receivables | 54,596,161 | 50,487,013 |

**Trade and other receivables impaired**

The ageing of these loans is as follows:

| | | |
|---|---|---|
| Consumer debtors - Electricity | 11,364,251 | 8,729,249 |
| Consumer debtors - Water | 20,793,646 | 15,789,695 |
| Consumer debtors - Sewerage | 8,818,69 | 7,027,137 |
| Consumer debtors - Refuse | 7,494,137 | 7,831,223 |
| Consumer debtors - Other | 25,285,971 | 8,549,625 |

# Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
| --- | --- | --- |

## 9. Receivables from non-exchange transactions

| | | |
| --- | --- | --- |
| Traffic Fines | 455,658 | 366,711 |
| Consumer debtors - Rates | 10,699,844 | 10,727,883 |
| | **11,155,502** | **11,094,594** |

**Receivables from non-exchange transactions pledged as security**

There are no consumer debtors pleged as security for overdraft facilities.

**Credit quality of receivables from non-exchange transactions**

**Receivables from non-exchange transactions**

| | | |
| --- | --- | --- |
| **Counterparties with external credit rating (Moody's)** | | |
| Baa3 | 11,135,788 | 11,094,594 |
| | **11,135,788** | **11,094,594** |

**Receivables from non-exchange transactions impaired**

Details of the impairment:

| | | |
| --- | --- | --- |
| Traffic Fines | 4,837,322 | 5,687,320 |
| Consumer debtors - Rates | (6,157,364) | 13,059,023 |

## 10. VAT receivable

| | | |
| --- | --- | --- |
| VAT | 40,450,193 | 23,456,362 |
| | **40,450,193** | **23,456,362** |

## Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 11. Consumer debtors disclosure

| | | |
|---|---|---|
| **Gross balances** | | |
| Consumer debtors - Rates | 66,451,545 | 72,636,948 |
| Consumer debtors - Electricity | 96,017,079 | 83,172,717 |
| Consumer debtors - Water | 109,383,389 | 87,865,985 |
| Consumer debtors - Sewerage | 65,197,052 | 56,239,195 |
| Consumer debtors - Refuse | 70,842,524 | 61,701,123 |
| Consumer debtors - Other | 59,244,310 | 32,739,394 |
| | **467,135,899** | **394,355,362** |

| | | |
|---|---|---|
| **Less: Allowance for impairment** | | |
| Consumer debtors - Rates | (55,751,701) | (61,909,065) |
| Consumer debtors - Electricity | (75,893,068) | (64,528,817) |
| Consumer debtors - Water | (98,366,880) | (77,573,234) |
| Consumer debtors - Sewerage | (60,727,621) | (51,908,925) |
| Consumer debtors - Refuse | (65,357,657) | (57,863,520) |
| Consumer debtors - Other | (55,681,443) | (30,395,472) |
| | **(411,778,370)** | **(344,179,033)** |

| | | |
|---|---|---|
| **Net balance** | | |
| Consumer debtors - Rates | 10,699,844 | 10,727,883 |
| Consumer debtors - Electricity | 20,124,011 | 18,643,900 |
| Consumer debtors - Water | 11,016,509 | 10,292,751 |
| Consumer debtors - Sewerage | 4,469,431 | 4,330,270 |
| Consumer debtors - Refuse | 5,484,867 | 3,837,603 |
| Consumer debtors - Other | 3,562,867 | 2,343,922 |
| | **55,357,529** | **50,176,329** |

| | | |
|---|---|---|
| **Included in above is receivables from exchange transactions** | | |
| Electricity | 20,124,011 | 18,643,900 |
| Water | 11,016,509 | 10,292,751 |
| Sewerage | 4,469,431 | 4,330,270 |
| Refuse | 5,484,867 | 3,837,603 |
| Business service levies | 3,562,866 | 2,343,922 |
| | **44,657,684** | **39,448,446** |

| | | |
|---|---|---|
| **Included in above is receivables from non-exchange transactions (taxes and transfers)** | | |
| Rates | 10,699,844 | 10,727,883 |
| | **10,699,844** | **10,727,883** |

| | | |
|---|---|---|
| **Net balance** | **55,357,528** | **50,176,329** |

| | | |
|---|---|---|
| **Rates** | | |
| Current (0 -30 days) | 2,751,459 | 2,965,439 |
| 31 - 60 days | 2,195,662 | 2,317,521 |
| 61 - 90 days | 1,996,565 | 2,120,765 |
| 91 - 120 days | 1,861,872 | 2,030,049 |
| 121 - 365 days | 9,603,063 | 10,759,986 |
| > 365 days | 48,042,924 | 52,443,188 |
| Consumer Impairment | (55,751,701) | (61,909,065) |
| | **10,699,844** | **10,727,883** |

## Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 11. Consumer debtors disclosure (continued)

| | | |
|---|---|---|
| **Electricity** | | |
| Current (0 -30 days) | 3,299,247 | 3,741,843 |
| 31 - 60 days | 1,750,226 | 1,676,940 |
| 61 - 90 days | 1,743,488 | 1,668,720 |
| 91 - 120 days | 1,578,899 | 1,522,194 |
| 121 - 365 days | 8,792,045 | 8,414,613 |
| > 365 days | 78,853,174 | 66,148,407 |
| Consumer Impairment | (75,893,068) | (64,528,817) |
| | **20,124,011** | **18,643,900** |

| | | |
|---|---|---|
| **Water** | | |
| Current (0 -30 days) | 3,526,987 | 3,202,175 |
| 31 - 60 days | 2,617,155 | 2,137,586 |
| 61 - 90 days | 2,511,837 | 2,361,857 |
| 91 - 120 days | 2,511,740 | 2,609,899 |
| 121 - 365 days | 13,050,267 | 10,008,550 |
| > 365 days | 85,165,403 | 67,545,918 |
| Consumer Impairment | (98,366,880) | (77,573,234) |
| | **11,016,509** | **10,292,751** |

| | | |
|---|---|---|
| **Sewerage** | | |
| Current (0 -30 days) | 1,290,092 | 1,261,426 |
| 31 - 60 days | 1,121,976 | 1,054,885 |
| 61 - 90 days | 1,063,793 | 995,640 |
| 91 - 120 days | 1,024,821 | 1,049,142 |
| 121 - 365 days | 5,948,100 | 5,350,289 |
| > 365 days | 54,748,270 | 46,527,813 |
| Consumer Impairment | (60,727,621) | (51,908,925) |
| | **4,469,431** | **4,330,270** |

| | | |
|---|---|---|
| **Refuse** | | |
| Current (0 -30 days) | 1,285,845 | 1,315,805 |
| 31 - 60 days | 1,043,134 | 997,192 |
| 61 - 90 days | 998,128 | 955,827 |
| 91 - 120 days | 985,271 | 905,181 |
| 121 - 365 days | 5,611,135 | 5,015,995 |
| > 365 days | 60,919,011 | 52,511,123 |
| Consumer Impairment | (65,357,657) | (57,863,520) |
| | **5,484,867** | **3,837,603** |

| | | |
|---|---|---|
| **Other** | | |
| Current (0 -30 days) | 1,011,639 | 2,515,853 |
| 31 - 60 days | 819,202 | 258,918 |
| 61 - 90 days | 1,273,407 | 973,185 |
| 91 - 120 days | 1,156,274 | 972,569 |
| 121 - 365 days | 6,749,342 | 4,529,850 |
| > 365 days | 48,234,446 | 23,498,414 |
| Consumer Impairment | (55,681,443) | (30,404,867) |
| | **3,562,867** | **2,343,922** |

# Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 11. Consumer debtors disclosure (continued)

**Summary of debtors by customer classification**

| **Reconciliation of allowance for impairment** | | |
|---|---|---|
| Balance at beginning of the year | (344,179,033) | (283,193,080) |
| Contributions to allowance | (67,599,336) | (60,985,953) |
| | **(411,778,370)** | **(344,179,033)** |

### 12. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Cash on hand | 33,520 | 33,420 |
| Bank balances | 1,940,972 | 10,368,477 |
| Short-term deposits | 201,825 | 8,861,654 |
| | **2,176,317** | **19,263,551** |

**Credit quality of cash at bank and short term deposits, excluding cash on hand**

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

| **Credit rating** | | |
|---|---|---|
| Baa3 | 2,142,797 | 19,230,131 |
| | **2,142,797** | **19,230,131** |

**The municipality had the following bank accounts**

| **Account number / description** | **Bank statement balances** | | | **Cash book balances** | | |
|---|---|---|---|---|---|---|
| | **30 June 2017** | **30 June 2016** | **30 June 2015** | **30 June 2017** | **30 June 2016** | **30 June 2015** |
| Standard Bank- Business - 031077110 | 1,940,972 | 10,368,477 | 1,738,061 | 1,940,972 | 10,368,477 | 1,738,061 |
| Standard Bank - Market Link - 335515525 | 86,289 | 7,267,333 | 27,522,683 | 86,289 | 7,267,333 | 27,522,683 |
| Standard Bank - Call Account - 738887536-017 | 115,536 | 1,594,321 | 664,542 | 115,536 | 1,594,321 | 664,542 |
| **Total** | **2,142,797** | **19,230,131** | **29,925,286** | **2,142,797** | **19,230,131** | **29,925,286** |

# Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 13. Finance lease obligation

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 256,748 | 377,512 |
| - in second to fifth year inclusive | - | 246,279 |
| | 256,748 | 623,791 |
| less: future finance charges | (10,469) | (52,088) |
| **Present value of minimum lease payments** | **246,279** | **571,703** |

| | | |
|---|---|---|
| **Present value of minimum lease payments due** | | |
| - within one year | 246,279 | 337,942 |
| - in second to fifth year inclusive | - | 233,761 |
| | **246,279** | **571,703** |

| | | |
|---|---|---|
| Non-current liabilities | - | 233,761 |
| Current liabilities | 246,279 | 337,942 |
| | **246,279** | **571,703** |

It is municipality policy to lease certain [property]motor vehicles and equipment under finance leases.

The average lease term was 5 years.

**Market risk**

The carrying amounts of finance lease liabilities are denominated in the following currencies:

| | | |
|---|---|---|
| Rand | 246,279 | 571,703 |

The fair value of finance lease liabilities approximates their carrying amounts.

### 14. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| | | |
|---|---|---|
| **Unspent conditional grants and receipts** | | |
| Municipal System Improvement Grant | - | 752,350 |
| Sport and Recreation Grant - National Lottery | 700,000 | 700,000 |
| Municipal Infrastructure Grant | - | 209,618 |
| Expanded Public Works Programme Incentive Grant | 937,293 | - |
| | **1,637,293** | **1,661,968** |

**Movement during the year**

| | | |
|---|---|---|
| Balance at the beginning of the year | 1,661,968 | 1,212,316 |
| Additions during the year | 175,062,567 | 170,263,366 |
| Income recognition during the year | (175,087,242) | (169,813,714) |
| | **1,637,293** | **1,661,968** |

The nature and extent of government grants recognised in the unaudited annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 25 for reconciliation of grants from National/Provincial Government.

# Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

**14. Unspent conditional grants and receipts (continued)**

These amounts are invested in a ring-fenced investment until utilised.

**15. Provisions**

**Reconciliation of provisions - 2017**

| | Opening Balance | Change in discount factor | Total |
|---|---|---|---|
| Environmental rehabilitation | 40,792,262 | 13,723,968 | 54,516,230 |
| | **40,792,262** | **13,723,968** | **54,516,230** |

**Reconciliation of provisions - 2016**

| | Opening Balance | Change in discount factor | Total |
|---|---|---|---|
| Environmental rehabilitation | 33,355,812 | 7,436,450 | 40,792,262 |
| | **33,355,812** | **7,436,450** | **40,792,262** |

**Environmental rehabilitation provision**

**Adjustment of unit costs**

**CPI**

The CPI was used for the annual adjustment of unit costs as well as for determining the future value of current costs in the year when the cost is projected to be incurred. The average of the CPI for April to June 2017 amounted to 5.6372%.

**Discount rate**

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. Where the liability in this case is determined for a government entity (municipality), government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used.
The rate most consistent with the remaining life of the landfill published at the end of the quarter that includes the financial year-end date was used.
For this landfill the rate associated with the maximum period of 10 years was used, i.e. 2.5% above CPI.

# Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 16. Payables from exchange transactions

| | | |
|---|---|---|
| 13th Cheque Accrual | 3,442,036 | 3,599,977 |
| Deposits received | 128,769 | 135,096 |
| Employee related accruals | 1,790,659 | 1,726,292 |
| Leave Pay Accrual | 13,689,785 | 12,653,785 |
| Other Creditors | 29,857,162 | 14,852,352 |
| Payments received in advanced - contract in process | 10,476,175 | 8,908,579 |
| Retentions and Guarantees held | 8,189,316 | 4,352,920 |
| Third Party Accruals | 2,790,162 | 2,331,831 |
| Trade and other creditors | 507,410,920 | 415,045,860 |
| Trade payables | 110,789,963 | 36,002,457 |
| | **688,564,947** | **499,609,149** |

**Fair value of trade and other payables**

| | | |
|---|---|---|
| Trade payables | 688,564,947 | 499,609,149 |
| | **688,564,947** | **499,609,149** |

The carrying amount of loans to and from shareholders are denominated in the following currencies:

| | | |
|---|---|---|
| Rand | 688,546,947 | 499,609,149 |

### 17. Consumer deposits

| | | |
|---|---|---|
| Consumer debtors deposits | 13,756,035 | 12,262,283 |
| | **13,756,035** | **12,262,283** |

### 18. Revenue

| | | |
|---|---|---|
| Agency services | 11,836,121 | 10,993,079 |
| Government grants & subsidies | 175,206,725 | 170,398,166 |
| Interest received | 23,881,188 | 23,884,193 |
| Other income | 11,353,848 | 17,216,126 |
| Property rates | 92,620,875 | 81,095,403 |
| Public contributions and donations | - | 3,489,842 |
| Rental of facilities and equipment | 2,144,514 | 2,072,750 |
| Service charges | 288,691,419 | 265,485,484 |
| Fines | 6,345,645 | 7,011,281 |
| | **612,080,335** | **581,646,324** |

| | | |
|---|---|---|
| Agency services | 11,836,121 | 10,993,079 |
| Interest received | 23,881,188 | 23,884,193 |
| Other income | 11,353,848 | 17,216,126 |
| Rental of facilities and equipment | 2,144,514 | 2,072,750 |
| Service charges | 288,691,419 | 265,485,484 |
| **The amount included in revenue arising from exchanges of goods or services are as follows:** | | |
| | **337,907,090** | **319,651,632** |

## Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 18. Revenue (continued)

| | | |
|---|---|---|
| **The amount included in revenue arising from non-exchange transactions is as follows:** | | |
| **Taxation revenue** | | |
| Property rates | 92,620,875 | 81,095,403 |
| **Transfer revenue** | | |
| Government grants & subsidies | 175,206,725 | 170,398,166 |
| Public contributions and donations | - | 3,489,842 |
| Fines | 6,345,645 | 7,011,281 |
| | **274,173,245** | **261,994,692** |

**Basis on which fair value of inflowing resources was measured**

**Taxes**

| | |
|---|---|
| Fines | Fines issued in terms of the Criminal Procedures Act are usually issued by way of notice to offenders, and can (a) indicate the value of the fine to be paid, and that certain reductions could be made to the value of the fine payable and how, or the circumstances under which, such reductions can be applied, or (b) indicate that the offender must appear in Court on a specified date (in these instances, the value of the fine may or may not be indicated but this is often only determined after a separate legal process). In 2012, the ASB revised IGRAP 1 Applying the Probability Test on the Initial Recognition of Revenue to include revenue from non-exchange transactions. This amendment is applicable to municipalities from 1 July 2013. IGRAP 1 indicates that entities should not consider the probability of non-payment on the initial recognition of revenue. This should be considered as a subsequent event when assessing impairment. |

### 19. Service charges

| | | |
|---|---|---|
| Refuse removal | 20,887,410 | 18,337,727 |
| Sale of electricity | 187,540,369 | 178,990,461 |
| Sale of water | 55,909,301 | 46,694,729 |
| Sewerage and sanitation charges | 24,354,339 | 21,462,567 |
| | **288,691,419** | **265,485,484** |

### 20. Rental of facilities and equipment

| | | |
|---|---|---|
| **Premises** | | |
| Premises | 2,036,555 | 1,983,875 |
| **Facilities and equipment** | | |
| Rental of equipment | 107,959 | 88,875 |
| | **2,144,514** | **2,072,750** |

# Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

## 21. Other income

| | | |
|---|---|---|
| Administration fees | 355,511 | 303,038 |
| Advertising | 204,670 | 193,639 |
| Tender Fees | 98,169 | 126,580 |
| Cementary fees | 582,019 | 440,557 |
| Connection and reconnection fees | 7,153,892 | 11,629,597 |
| Fire brigade services | 1,993,872 | 488,287 |
| Photo copies | 654,572 | 547,572 |
| Special services | - | 25,303 |
| Sundry income | 311,143 | 3,461,553 |
| | **11,353,848** | **17,216,126** |

## 22. Investment revenue

| | | |
|---|---|---|
| **Interest revenue** | | |
| Interest charged on trade and other receivables | 22,594,007 | 22,693,056 |
| Interest on investments | 1,287,181 | 1,191,137 |
| | **23,881,188** | **23,884,193** |

## 23. Property rates

**Rates received**

| | | |
|---|---|---|
| Property rates | 107,611,003 | 100,128,440 |
| Less: Income forgone | (14,990,128) | (19,033,037) |
| | **92,620,875** | **81,095,403** |

**Valuations**

| | | |
|---|---|---|
| Residential | 6,442,991,000 | 6,401,342,000 |
| State | 1,247,630,000 | 1,250,330,000 |
| Municipal | 402,748,000 | 408,934,000 |
| Church | 160,005,000 | 176,320,000 |
| Agriculture | 3,282,374,000 | 3,281,989,000 |
| Business | 2,086,658,000 | 2,062,418,000 |
| PSI | 57,705,000 | 57,690,000 |
| | **13,680,111,000** | **13,639,023,000** |

The last general valuation came into effect on 1 July 2015. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2019.

# Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

## 24. Government grants and subsidies

| | | |
|---|---|---|
| **Operating grants** | | |
| Equitable share | 121,233,000 | 114,641,317 |
| Municipal Finance Grant | 1,810,000 | 1,675,000 |
| Municipal System Improvement Grant | 752,350 | 177,650 |
| Local Government Sector Education and Training Authority Grant | 271,050 | 260,818 |
| Expanded Public Works Programme Incentive Grant | 438,707 | 1,238,000 |
| | **124,505,107** | **117,992,785** |
| **Capital grants** | | |
| Municipal Infrastructure Grant | 38,701,618 | 39,767,381 |
| Intergrated National Electrification Programme | 12,000,000 | 12,638,000 |
| | **50,701,618** | **52,405,381** |
| | **175,206,725** | **170,398,166** |

### Conditional and Unconditional

Included in above are the following grants and subsidies received:

| | | |
|---|---|---|
| Conditional grants received | 52,597,725 | 54,518,849 |
| Unconditional grants received | 122,609,000 | 115,879,317 |
| | **175,206,725** | **170,398,166** |

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

### Financial Management Grant

| | | |
|---|---|---|
| Current-year receipts | 1,810,000 | 1,675,000 |
| Conditions met - transferred to revenue | (1,810,000) | (1,675,000) |
| | - | - |

The purpose of the FMG is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA.

### 24. Government grants and subsidies (continued)

**Expanded Public Works Programme Incentive Grant**

| | | |
|---|---|---|
| Current-year receipts | 1,376,000 | 1,238,000 |
| Conditions met - transferred to revenue | (438,707) | (1,238,000) |
| | **937,293** | **-** |

The Expanded Public Works Programme Incentive Grant is one of government's key programmes aimed at providing poverty and income relief through temporary work for the unemployed.The Expanded Public Works Programme Incentive Grant is a nationwide programme covering all spheres of government and SOEs.The programme provides an important avenue for labour absorption and income transfers to poor households, in the short to medium-term.

**Municipal System Improvement Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 752,350 | - |
| Current-year receipts | - | 930,000 |
| Conditions met - transferred to revenue | (752,350) | (177,650) |
| | **-** | **752,350** |

The Municipal Systems Improvement Grant (MSIG) is a conditional grant directed to selected Local and District municipalities. The purpose of the grant is to support municipalities in implementing new systems as provided in the Municipal Systems Act, Municipal Structures Act and other related local government policy and legislation so that they can carry mandated functions effectively.

**Sport and Recreation Grant - National Lottery**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 700,000 | 700,000 |
| | **700,000** | **700,000** |

The grant has been provided by the National Lottery to fund the refurbishment of the public swimming pool. The grant has not been utilised as the project costs exceed the available grant funds.

| Figures in Rand | 2017 | 2016 |
|---|---|---|

**24. Government grants and subsidies (continued)**

**Municipal Infrastructure Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 209,618 | 512,316 |
| Current-year receipts | 38,492,000 | 39,977,000 |
| Conditions met - transferred to revenue | (38,701,618) | (39,767,381) |
| Withheld from Equitable share | - | (512,317) |
| | **-** | **209,618** |

The Municipal Infrastructure Grant programme is aimed at providing all South Africans with at least a basic level of service by the year 2015 through the provision of grant finance aimed at covering the capital cost of basic infrastructure for the poor. The MIG programme is a key part of government's overall drive to alleviate poverty in the country and, therefore, infrastructure is to be provided in such a way that employment is maximised and opportunities are created for enterprises to flourish.

**Integrated National Electrification Grant**

| | | |
|---|---|---|
| Current-year receipts | 12,000,000 | 12,638,000 |
| Conditions met - transferred to revenue | (12,000,000) | (12,638,000) |
| | **-** | **-** |

The Neighbourhood Development Programme (NDP) Unit was established in 2006 and is responsible for managing the Neighbourhood Development Partnership Grant (NDPG).
The NDPG is driven by the notion that public investment and funding can be used creatively to attract private and community investment to unlock the social and economic potential in targeted underserved neighbourhoods, generally townships. This in turn will not only improve the quality of life of residents but also contribute to South Africa’s economic performance. The purpose of the grant is to therefore fund, support and facilitate the planning and development of neighbourhood evelopment programmes and projects that provide catalytic infrastructure to leverage such third party public and private sector investment for future and more sustainable development.

**25. Public contributions and donations**

| | | |
|---|---|---|
| Gert Sibande District Municipality | - | 3,090,426 |
| Mpumalanga Department: Culture, Sports & Recreation | - | 399,416 |
| | **-** | **3,489,842** |

# Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

## 26. Employee related costs

| | | |
|---|---|---|
| Accommodation, subsistence and other allowances | 6,097,938 | 5,485,008 |
| Basic | 79,741,192 | 82,057,855 |
| Bonus | 13,675,282 | 6,990,708 |
| Car allowance | 5,620,724 | 5,305,458 |
| Group Insurance | 1,462,186 | 1,379,347 |
| Leave pay provision charge | 3,215,517 | 2,750,896 |
| Medical aid - company contributions | 11,036,144 | 9,891,559 |
| Other payroll levies | 49,544 | 47,625 |
| Overtime payments | 15,603,620 | 14,597,172 |
| Pension Fund | 17,386,472 | 16,692,380 |
| SDL | 1,382,048 | 1,313,313 |
| UIF | 892,396 | 843,781 |
| | **156,163,063** | **147,355,102** |

**Remuneration of municipal manager**

| | | |
|---|---|---|
| Annual Remuneration | 1,082,604 | 1,170,139 |
| Backpay | - | 24,636 |
| Contributions to UIF, Medical and Pension Funds | 239,958 | 81,176 |
| Travel, motor car, accommodation, subsistence and other allowances | 114,850 | 38,283 |
| | **1,437,412** | **1,314,234** |

**Remuneration of  Chief Financial Officer**

| | | |
|---|---|---|
| Annual Remuneration | 832,233 | - |
| Contributions to UIF, Medical and Pension Funds | 210,736 | - |
| Travel, motor car, accommodation, subsistence and other allowances | 66,000 | - |
| | **1,108,969** | **-** |

**Remuneration of the General manager - Public Safety**

| | | |
|---|---|---|
| Annual Remuneration | 1,086,387 | 898,340 |
| Backpay | - | 30,513 |
| Acting Allowance | 13,624 | 79,690 |
| Contributions to UIF, Medical and Pension Funds | 29,020 | 34,722 |
| Travel, motor car, accommodation, subsistence and other allowances | 60,000 | 60,000 |
| | **1,189,031** | **1,103,265** |

**Remuneration of the General manager - Corporate Services**

| | | |
|---|---|---|
| Annual Remuneration | 818,313 | 671,340 |
| Backpay | - | 25,012 |
| Acting Allowance | 9,432 | 14,632 |
| Contributions to UIF, Medical and Pension Funds | 209,049 | 178,287 |
| Travel, motor car, accommodation, subsistence and other allowances | 148,045 | 148,045 |
| | **1,184,839** | **1,037,316** |

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 26. Employee related costs (continued)

**Remuneration of the General manager - Community and Health**

| | | |
|---|---|---|
| Annual Remuneration | 834,098 | 684,048 |
| Backpay | - | 25,011 |
| Contributions to UIF, Medical and Pension Funds | 185,291 | 157,778 |
| Travel, motor car, accommodation, subsistence and other allowances | 156,000 | 156,000 |
| | **1,175,389** | **1,022,837** |

**Remuneration of the General manager - Technical Services**

| | | |
|---|---|---|
| Annual Remuneration | 814,426 | 670,706 |
| Backpay | - | 23,957 |
| Contributions to UIF, Medical and Pension Funds | 180,963 | 154,610 |
| Travel, motor car, accommodation, subsistence and other allowances | 180,000 | 180,000 |
| | **1,175,389** | **1,029,273** |

### 27. Remuneration of councillors

| | | |
|---|---|---|
| Executive Mayor | 796,252 | 811,529 |
| Mayoral Committee Members | 2,806,500 | 1,844,292 |
| Speaker | 644,752 | 654,115 |
| Councillors | 8,751,022 | 8,980,394 |
| | **12,998,526** | **12,290,330** |

### 28. Depreciation

| | | |
|---|---|---|
| Property, plant and equipment | 79,773,016 | 80,634,903 |
| Investment property | 1,316,238 | 1,316,238 |
| | **81,089,254** | **81,951,141** |

# Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

## 29. Impairment of assets

| | | |
|---|---|---|
| **Impairments** | | |
| Property, plant and equipment | 1,591,208 | 6,866,206 |
| Trade and other receivables - Traffic Fines Impairment | 4,817,608 | 5,687,320 |
| | **6,408,816** | **12,553,526** |

An amendedment to IGRAP 1, require the Msukaligwa Local Municipality to account for Traffic Fine Income on the accrual basis.
The Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers) (GRAP 23), requires that revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured.
IGRAP 1 clarifies that an entity should recognise the full amount of revenue at the transaction date when there is uncertainty about the entity's ability to collect such revenue based on past history, as the entity has an obligation to collect all revenue due to it.
Entities should not consider or assess the probability of collecting revenue at the transaction date because this is a subsequent measurement event. Subsequent to initial recognition and measurement, an entity should assess the collectability of the revenue and recognise an impairment loss where appropriate.
The municipality therefore accounted for each fine issued on the accural basis, however the probabilty was assessed and it was found that the current year cash received from fines related to less than 12% of fines issued. Therefore the receivable created was impaired in full.

## 30. Finance costs

| | | |
|---|---|---|
| Finance leases | 41,914 | 106,070 |
| Interest on Environmental rehabilitation | 13,723,968 | 7,436,450 |
| Trade and other payables | 41,032,910 | 47,278,244 |
| Other interest paid | 3,788,764 | 3,321,213 |
| | **58,587,556** | **58,141,977** |

## 31. Debt impairment

| | | |
|---|---|---|
| Contributions to debt impairment provision | 67,599,336 | 60,985,955 |
| | **67,599,336** | **60,985,955** |

## 32. Bulk purchases

| | | |
|---|---|---|
| Electricity | 195,677,213 | 174,991,765 |
| Water | 65,805,242 | 47,415,033 |
| | **261,482,455** | **222,406,798** |

## 33. Contracted services

| | | |
|---|---|---|
| Information Technology Services | 13,373,759 | 9,451,280 |
| Fleet Services | 3,893,167 | 3,025,445 |
| Operating Leases | 82,325 | 53,857 |
| Specialist Services | 20,003,272 | 20,209,001 |
| Other Contractors | 82,048,622 | 22,745,175 |
| | **119,401,145** | **55,484,758** |

# Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 34. General expenses

| | | |
|---|---|---|
| Advertising | 732,520 | 725,945 |
| Assets expensed | - | 37,696 |
| Auditors remuneration | 3,291,197 | 3,508,537 |
| Bank charges | 1,904,491 | 1,565,712 |
| Chemicals | 3,228,123 | 3,319,256 |
| Cleaning | 310,176 | 353,764 |
| Commission paid | 537 | 24 |
| Community development and training | 1,565,574 | 2,287,759 |
| Conferences and seminars | 1,130,093 | 1,221,249 |
| Consumables | 220,773 | 265,322 |
| Discount allowed | 754,500 | 897,446 |
| Electricity | 3,063,234 | 3,321,434 |
| Entertainment | 244,651 | 68,043 |
| Fines and penalties | 13,500 | 4,500 |
| Fuel and oil | 1,714,691 | 1,143,146 |
| IT expenses | 157,069 | 1,970 |
| Insurance | 3,956,197 | 2,235,465 |
| Magazines, books and periodicals | 33,178 | 39,543 |
| Medical expenses | 1,800 | 2,946 |
| Motor vehicle expenses | 4,982,760 | 5,714,055 |
| Other Expense | 3,902,185 | 3,373,908 |
| Postage and courier | 1,073,215 | 929,441 |
| Printing and stationery | 1,768,844 | 1,913,863 |
| Project maintenance costs | 19,888 | 19,783 |
| Promotions | 39,421 | 68,500 |
| Refuse | 33,018 | 34,979 |
| Staff welfare | 40,198 | 114,605 |
| Subscriptions and membership fees | 1,765,430 | 1,570,774 |
| Telephone and fax | 1,385,993 | 1,308,598 |
| Title deed search fees | 14,448 | 9,043 |
| Training | 204,804 | 124,800 |
| Uniforms | 430,091 | 481,813 |
| Water | 2,917,606 | 118,211 |
| | **40,900,205** | **36,782,130** |

### 35. Auditors' remuneration

| | | |
|---|---|---|
| Fees | 3,291,197 | 3,508,537 |
| | **3,291,197** | **3,508,537** |

### 36. Operating deficit

Operating deficit for the year is stated after accounting for the following:

**Operating lease charges**
Equipment

| | | |
|---|---|---|
| • Contingent amounts | 1,619,533 | 2,004,526 |
| | **1,619,533** | **2,004,526** |

| | | |
|---|---|---|
| Gain (loss) on sale of property, plant and equipment | 680,000 | (1,528,508) |
| Impairment on property, plant and equipment | 1,591,208 | 6,866,206 |
| Impairment on trade and other receivables | 4,817,608 | 5,687,320 |
| Depreciation on property, plant and equipment | 79,773,016 | 80,634,903 |
| Depreciation on investment property | 1,316,238 | 1,316,238 |
| Employee costs | 176,432,618 | 165,152,357 |

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 37. Cash generated from operations

| | | |
|---|---|---|
| Deficit | (253,771,641) | (157,040,446) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 81,089,254 | 81,951,141 |
| (Loss)/gain on sale of assets and liabilities | (680,000) | 1,528,508 |
| Finance costs - Finance leases | 41,914 | 106,070 |
| Impairment deficit | 6,408,816 | 12,553,526 |
| Debt impairment | 67,599,336 | 60,985,955 |
| Movements in retirement benefit assets and liabilities | 18,634,473 | 3,628,164 |
| Movements in provisions | 13,723,968 | 7,436,450 |
| **Changes in working capital:** | | |
| Inventories | (418,613) | (2,447,578) |
| Receivables from exchange transactions | (8,675,804) | (15,239,153) |
| Consumer debtors | (67,599,336) | (60,985,955) |
| Other receivables from non-exchange transactions | (60,908) | (13,575,528) |
| Payables from exchange transactions | 188,955,801 | 97,497,178 |
| VAT | (16,993,831) | 16,086,042 |
| Unspent conditional grants and receipts | (24,675) | (773,082) |
| Consumer deposits | 1,493,752 | 1,574,116 |
| | **29,722,506** | **33,285,408** |

### 38. Financial instruments disclosure

**Categories of financial instruments**

**2017**

**Financial assets**

| | At fair value | At amortised cost | Total |
|---|---|---|---|
| Trade and other receivables from exchange transactions | - | 54,576,686 | 54,576,686 |
| Other receivables from non-exchange transactions | - | 11,135,788 | 11,135,788 |
| Cash and cash equivalents | 2,176,317 | - | 2,176,317 |
| | **2,176,317** | **65,712,474** | **67,888,791** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Trade and other payables from exchange transactions | 688,546,947 | 688,546,947 |
| Consumer Deposit | 13,756,035 | 13,756,035 |
| Unspent Conditional Grants | 1,637,293 | 1,637,293 |
| Finance Leases | 246,279 | 246,279 |
| | **704,186,554** | **704,186,554** |

**2016**

**Financial assets**

| | At fair value | At amortised cost | Total |
|---|---|---|---|
| Trade and other receivables from exchange transactions | - | 50,487,013 | 50,487,013 |
| Other receivables from non-exchange transactions | - | 11,094,594 | 11,094,594 |
| Cash and cash equivalents | 19,263,551 | - | 19,263,551 |
| | **19,263,551** | **61,581,607** | **80,845,158** |

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 38. Financial instruments disclosure (continued)

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Trade and other payables from exchange transactions | 499,609,149 | 499,609,149 |
| Consumer Deposits | 12,262,283 | 12,262,283 |
| Unspent Conditional Grants | 1,661,968 | 1,661,968 |
| Finance Leases | 571,703 | 571,703 |
| | **514,105,103** | **514,105,103** |

### 39. Commitments

**Authorised capital expenditure**

| **Not yet contracted for and authorised by accounting officer** | | |
|---|---|---|
| • Property, plant and equipment | 49,446,782 | 48,468,662 |
| | **49,446,782** | **48,468,662** |

| **Total capital commitments** | | |
|---|---|---|
| Not yet contracted for and authorised by accounting officer | 49,446,782 | 48,468,662 |
| | **49,446,782** | **48,468,662** |

**Total commitments**

| **Total commitments** | | |
|---|---|---|
| Authorised capital expenditure | 49,446,782 | 48,468,662 |
| | **49,446,782** | **48,468,662** |

This committed expenditure relates to plant and equipment and will be financed by available National grants,bank facilities, retained surpluses, existing cash resources and funds internally generated,.

## 40. Contingencies

| No | Citation of parties | Nature of details of case | Attorney dealing with the matter for the Municipality | Potential Liability | Status |
|---|---|---|---|---|---|
| 1 | **ZWANE TRUST vs MSUKALIGWA Local Municipality** | In this matter the Municipality sold a portion of portion 234 Nooitgedacht 268 IT to a private person approximately 1.73 hectares. However when the transfer was done to the District Municipality the whole 6.66 hectares was registered in the name of the District Municipality | Bekker Brink and Brink | **R 3 570 000** | The Municipality has been served with the letter requesting the transfer of the portion but if there is a difficulty in finalising the transfer then a solution can be the refund of the purchase price already paid or an alternative land be identified as compensation thereto. |
| 2 | **Enzo Contarctors(Pty)Ltd vs Msukaligwa Local Muniiplaity** | Action was taken by Enzo Contractors (Pty) Ltd against the municipality and two other parties for payment of costs incurred for the registration and licensing of its rough terrain crane. The Municipality have obtained a rescission order dated 2 August 2011 and filed a plea in the main action. | Gildenhuys Malatji Inc | **R 145 109** | The pleadings have closed, however the plaintiff has taken no action to set the matter down for hearing |
| 3 | **REGUCOM JV MONASHE vs Msukaligwa Local Municiplaity** | This matter comes from the procurement processes on debt collection wherein the Plaintiff submitted a tender for that service. The Plaintiff realised that they were appointed after seeing their name on the website as part of those who were awarded the tender. They are suing the Municipality for future loss of income. | Julie Mahommed Attorneys | **R 50 000 000** | The notice of intention to defend has already been filed and the matter is pending in the High Court |
| 5 | **MNCULU INCORPORATED vs Msukaligwa Local Municipality** | An attorney instructed by the Department of Human Settlement to attend to the housing issue in Msukaligwa Municipality sued the Municipality for the services rendered. | Mohlala Attorneys | **R 60 000** | The Municipality is defending the matter in Ermelo Magistrates Court. |
| 6 | **T NEL vs Msukaligwa Local Municipality** | A resident's motor vehicle was involved in an accident and as a result the resident suffered damages. | Mohlala Attorneys | **R 600 000** | The matter is defended by the Municipality |
| 7 | **SALA vs Msukaligwa Local Municipality** | The SALA pension fund is suing the Municipality for failure to lodge a claim within the prescribed time period on behalf of an employee. | Mohlala Attorneys | **R 112 301** | The Municipality has received summons on the 25th of July 2016 |
| 9 | **Resident of Ermelo vs Msukalidwa local Municipality** | In this matter the shack of one of the residents was demolished by the Red Ants and the Plaintiff is suing the ward Councillor because the ward Councillor allegedly assured her that the eviction will be stopped. | Mohlala Attorneys | **R62,161.00** | This matter is at the pleading stages |
| 10 | **DUMAZILE NGWENYA (ON BEHALF OF THE MINOR CHILD) vs MSUKALIGWA Local Municipality** | Children were playing in Thusiville and one of them was electrocuted by the electricity line and he suffered damages in the form of the pain and suffering and future loss of income. | Mohlala Attorneys | **R25,000,000.00** | The summons was served on the 24th of January and the matter is being assessed. |
| 11 | **MR MLOTSHWA vs Msukaligwa Local Municipality** | A tractor belonging to the Municipality collided with the vehicle. It is alleged that the accident was caused by the sole negligence of the driver of the tractor of the Municipality.CIVIL CASE | No appointment has been made at reporting date | **R 28 720** | In this matter the Municipality only received summons and we engaged our insurance with a view to allow them to deal with the matter. |

## 40. Contingencies (continued)

| | | | | | |
|---|---|---|---|---|---|
| 12 | **SAMWU On behalf of Hlophe vs Msukaligwa Local Municipality** | Action was taken by SAMWU on behalf of Hlophe and others against the municipality for losses due to unlawful variation of the terms of the employment. The municipality is opposing the claims and pleadings are currently still exchanged, the matter has not been set down for a trial date.LABOUR MATTER | Sefalafala Attorneys | **R800,000.00** | This matter is still pending in the labour Court. However an information was supplied to our attorneys that we were paying the employees 1.5 prior to 2011 and from 2013. Then further information will be provided on the amount outstanding for that period. A meeting has been held on the 13th of November 2014 with a view to have an amicable solution on this matter. As the Municipality we need to do a calculation. A detailed report will be presented to Council on this matter. |
| 13 | **Limhoto Housing vs Msukaligwa Local Municiplaity** | Legal action was taken by Limphoto Housing against the municipality for the unlawful disconnection of the electricity. CIVIL CASE | Sefalafala Attorneys | **R 350 000** | The matter has not been set down for a trial date. |
| 14 | **SILVERSTAR INVESTMENT vs Msukaligwa Local Municipality** | The developer of the proposed Ermelo Regional Shopping Mall has filed the notice of motion to call the Municipality to take the decision within 15 days of the Court Order. | TMN Kgomo and Associates | **Unknown at the reopting date** | The matter is defended by the Municipality and it has to be set down for hearing in the opposed roll. In the meantime the Municipality must speedup the taking of decision on the developer’s application. |
| 15 | **A VERIMAAK vs Msukaligwa local Municiplaity** | A resident while walking on the road she fell into a hole. It is alleged to be as a result of the negligence of the Municipality not to mark the area where it was working with the red tape. | TMN Kgomo and Associates | **R 400 000** | The notice of intention to defend has already been filed and the matter is pending in the High Court |
| 16 | **B VOGES vs Msukaligwa local Municilaity** | A vehicle belonging to the resident was involved in the accident as a result of the negligence of the Municipality not to mark the area where it was working with the red tape. | TMN Kgomo and Associates | **R 162 384** | The notice of intention to defend has already been filed and the matter is pending in the Magistrate’s Court. |
| 17 | **SIMON LEBESHU MOKOENA vs Msukaligwa Local Municipality** | The employees of the Municipality went on a protest which turned violent and there was damage to property of the Municipality. As result there were employees who were arrested for that. Some of the employees were withdrawn from the case and others were acquitted. Then one of the employees are suing the Municipality for unlawful arrest. | TMN Kgomo and Associates | **R 65 000** | The Municipality has been served with a notice in terms of section 3 of Act 40 of 2002 |
| 18 | **MINISTER (DEPARTMENT) OF WATER AND SANITATION vs MSUKALIGWA Local Municipality** | The Minister (Department) of water and sanitation is suing the Municipality for unpaid water account charges. The plaintiff became aware in the past two years that the defendant has been failing to pay the water charges as obligated. | TMN Kgomo and Associates | **R184,124,517.0** | The summons were served on the 02nd of February 2017 and the matter is being assessed. |
| 19 | **WARM AUTUM INVESTEMNTS vs Msukaligwa local Municiplaity** | in this matter the Municipality is being sued as a result of the intended development in Reitspruit on the allegations that the sale of the land was not done in a proper way. Furthermore that the township Establishment processes was not done properly because the objections thereof were not attended | TMN Kgomo and Associates | **Unknown at the reopting date** | This matter is at the pleading stages |

## 40. Contingencies (continued)

| | | | | | |
|---|---|---|---|---|---|
| 20 | **NEWCHO vs Msukaligwa local municipality** | This issue involves land that was earmarked for development but was later disposed of or allocated in a manner which was not in line with the development. NEWCHO as the developer is intending to sue the Municipality for damages.CIVIL CASE (Breach of contract) | TMN Kgomo and Associates | **R 6 483 579** | This matter is still pending in the High Court and it is at the pleading stage. |
| 22 | **J.J Meyer vs Msukaligwa Local Municipality** | An Employee of the Municipality was electrocuted while on duty. He is claiming damages alleging that he was injured as a result of the sole negligence of the Municipality.CIVIL CASE | TMN Kgomo and Associates | **R 1 220 500** | This matter is at the pleadings stage and is pending in the High Court |
| 23 | **CM Mango vs Msukaligwa local Municiplaity** | Action was taken by CM Mango against the municipality for the payment of damages incurred due to failure to barricade a hole and heap of soil on a construction site of the municipality. CIVIL CASE | TMN Kgomo and Associates | **R 190 000** | The Municipality is defending the claim and have served and filed a plea and a discovery affidavit, the matter has not been set down for a trial date. |
| 24 | **ALTIMAX vs Msukaligwa local Municiplaity** | This matter is alleged breach of contract by Altimax in that the Municipality is failing or has failed to pay outstanding payment for services rendered. | TMN Kgomo and Associates | **R 2 739 638** | The Municipality has only been served with the notice in terms of section 3 of Act 40 of 2002. Summons has been served |

# Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

## 41. Related parties

**Relationships**

| | |
|---|---|
| Accounting Officer | Refer to accounting officer's report |
| Members of key management | Cllr. J.A. Bal |
| | Cllr. J.D.A. Blignaut |
| | Cllr. M.J. Blose |
| | Cllr. Z. Breydenbach |
| | Cllr. B.M. Buthelezi (Old Councillor) |
| | Cllr. Z.C. Dhludhlu (Old Councillor) |
| | Cllr. K.H. Dladla (Old Councillor) |
| | Cllr. G.S. Greyling |
| | Cllr. S.L. Jele (Old Councillor) |
| | Cllr. B.I. Jiyane |
| | Cllr. L.N.V. Kubheka |
| | Cllr. D.J. Litau |
| | Cllr. M.C. Lukhele (Old Councillor) |
| | Cllr. F.J. Mabasa |
| | Cllr. D. Mabunda |
| | Cllr. D. Mabunda (Old Councillor) |
| | Cllr. V.C. Madini (Old Councillor) |
| | Cllr. M.E. Madonsela |
| | Cllr. N.H. Magagula |
| | Cllr. L.S. Mahlangu |
| | Cllr. T.T. Malaza (Old Councillor) |
| | Cllr. L.A. Maseko |
| | Cllr. B.P. Maseko (Old Councillor) |
| | Cllr. P.E. Mashiane |
| | Cllr. M.Z.M. Mashiane |
| | Cllr. P.E. Mashiane (Old Councillor) |
| | Cllr. N.G. Mashinini (Old Councillor) |
| | Cllr. D.T. Masina (Old Councillor) |
| | Cllr. S.C. Mathebula (Old Councillor) |
| | Cllr. M.Z.M. Mazibuko |
| | Cllr. M.J. Mhlanga (Old Councillor) |
| | Cllr. L.D. Mndebele |
| | Cllr. L.P. Mnisi |
| | Cllr. T.A. Mnisi |
| | Cllr. T.J. Mnisi |
| | Cllr. V.J. Mokoena (Old Councillor) |
| | Cllr. P.F. Moloyi |
| | Cllr. T.C. Motha |
| | Cllr. E.C. Msezane |
| | Cllr. S.J. Msibi (Old Councillor) |
| | Cllr. T.G. Msimango (Old Councillor) |
| | Cllr. B.N.N. Ndlovu |
| | Cllr. B.R. Ngwenya (Old Councillor) |
| | Cllr. G.E. Ngwenyama |
| | Cllr. D.M. Nkambule |
| | Cllr. N.E. Nkosi |
| | Cllr. T. Nkosi |
| | Cllr. Z.J. Nkosi |
| | Cllr. D.S. Nkosi (Old Councillor) |
| | Cllr. M.P. Nkosi |
| | Cllr. M.S. Nkosi |
| | Cllr. S.J. Nkosi (Old Councillor) |
| | Cllr. J.J. Nzimande |
| | Cllr. J.H. Sibanyoni (Old Councillor) |
| | Cllr. P.T. Sibeko |
| | Cllr. M. Sibiya |

**41. Related parties (continued)**

Cllr. B.I. Sibiya (Old Councillor)
Cllr. B.J.M. Sithole
Cllr. J.T. Soko
Cllr. H.F. Swart
Cllr. S.E. Vilakazi (Old Councillor)

**Key management information**

| | | |
|---|---|---|
| Mayor | . | Cllr. M.S. Nkosi |

**Remuneration of management**

**Councillors/Mayoral committee members**

**2017**

| No. | Name | Basic Salary | Contributions to Medical and Pension Funds | Travel Allowance | Cellphone Allowance | Total |
|---|---|---|---|---|---|---|
| 1 | Executive Mayor - Cllr. M.S. Nkosi | 448,017.34 | 28,864.11 | 67,202.61 | 171,199.91 | 715,283.97 |
| 2 | Chief Whip - Cllr. P.E. Mashiane | 352,297.37 | 25,960.12 | 52,844.65 | 135,047.23 | 566,149.37 |
| 3 | MMC - Cllr. J.A. Bal | 309,880.19 | 23,518.90 | 46,482.07 | 118,787.40 | 498,668.56 |
| 4 | MMC - Cllr. L.P. Mnisi | 352,297.37 | 25,960.12 | 52,844.65 | 135,370.76 | 566,472.90 |
| 5 | MMC - Cllr. T.A. Mnisi | 319,896.24 | 23,518.90 | 68,502.15 | 129,129.87 | 541,047.16 |
| 6 | MMC - Cllr. E.C. Msezane | 356,671.16 | 25,960.12 | 53,500.72 | 136,723.84 | 572,855.84 |
| 7 | Speaker - Cllr. M.P. Nkosi | 384,468.08 | 31,305.33 | 74,731.43 | 149,949.33 | 640,454.17 |
| 8 | Cllr. J.DA. Blignaut | 121,991.83 | 25,043.96 | 62,259.07 | 59,742.26 | 269,037.12 |
| 9 | Cllr. M.J. Blose | 143,173.21 | 23,518.90 | 21,476.01 | 54,883.00 | 243,051.12 |
| 10 | Cllr. J.S. Bongwe | 51,212.88 | 2,441.22 | 7,681.93 | 19,631.60 | 80,967.63 |
| 11 | Cllr.Z. Breydenbach | 158,609.70 | 25,960.12 | 23,791.49 | 60,800.36 | 269,161.67 |
| 12 | Cllr. B.M. Buthelezi (Old Councillor) | 38,605.27 | 2,441.22 | 10,367.23 | 13,868.40 | 65,282.12 |
| 13 | Cllr. Z.C. Dhludhlu (Old Councillor) | 15,436.54 | 2,441.22 | 2,315.48 | 5,917.36 | 26,110.60 |
| 14 | Cllr. K.H. Dladla (Old Councillor) | 15,436.54 | 2,441.22 | 2,315.48 | 5,917.36 | 26,110.60 |
| 15 | Cllr. G.S. Greyling | 158,609.74 | 25,960.12 | 23,791.49 | 60,800.36 | 269,161.71 |
| 16 | Cllr. S.L. Jele (Old Councillor) | 15,436.54 | 2,441.22 | 2,315.48 | 5,917.36 | 26,110.60 |
| 17 | Cllr. B.I. Jiyane | 143,173.20 | 23,518.90 | 21,476.01 | 54,883.00 | 243,051.11 |
| 18 | Cllr. L.N.V. Kubheka | 143,173.20 | 23,518.90 | 21,476.01 | 54,883.00 | 243,051.11 |
| 19 | Cllr. D.J. Litau | 63,266.70 | 11,241.22 | 22,592.51 | 26,732.90 | 123,833.33 |
| 20 | Cllr. M.C. Lukhele (Old Councillor) | 13,482.44 | 2,441.22 | 5,538.45 | 4,623.08 | 26,085.19 |
| 21 | Cllr. F.J. Mabasa | 158,609.74 | 25,960.12 | 23,791.49 | 60,800.36 | 269,161.71 |
| 22 | Cllr. D. Mabunda | 158,609.74 | 25,960.12 | 23,791.49 | 60,800.36 | 269,161.71 |
| 23 | Cllr. B.I. Mabuza | 158,609.76 | 25,960.12 | 23,791.50 | 60,800.36 | 269,161.74 |
| 24 | Cllr. V.C. Madini (Old Councillor) | 35,694.16 | 2,441.22 | 10,236.80 | 12,629.90 | 61,002.08 |
| 25 | Cllr. M.E. Madonsela | 117,093.44 | 23,518.90 | 47,522.79 | 54,883.00 | 243,018.13 |
| 26 | Cllr. N.H. Magagula | 143,173.20 | 23,518.90 | 21,476.01 | 54,882.50 | 243,050.61 |
| 27 | Cllr. L.S. Mahlangu | 143,173.20 | 23,518.90 | 21,476.01 | 54,883.00 | 243,051.11 |
| 28 | Cllr. T.T. Malaza (Old Councillor) | 15,436.56 | 2,441.22 | 2,315.49 | 5,917.36 | 26,110.63 |
| 29 | Cllr. B.P. Maseko (Old Councillor) | 15,436.54 | 2,441.22 | 2,315.48 | 5,917.36 | 26,110.60 |
| 30 | Cllr. L.A. Maseko | 143,173.20 | 23,518.90 | 21,476.01 | 54,883.00 | 243,051.11 |
| 31 | Cllr. M.Z.M. Mashiane | 143,173.20 | 23,518.90 | 21,476.01 | 54,883.00 | 243,051.11 |
| 32 | Cllr. N.G. Mashinini (Old Councillor) | 34,332.54 | 2,441.22 | 9,726.32 | 14,723.70 | 61,223.78 |
| 33 | Cllr. D.T. Masina (Old Councillor) | 15,436.59 | 2,441.52 | 2,315.49 | 5,917.36 | 26,110.96 |
| 34 | Cllr. S.C. Mathebula (Old Councillor) | 15,436.56 | 2,441.22 | 2,315.49 | 5,917.36 | 26,110.63 |
| 35 | Cllr. M.Z.M. Mazibuko | 143,173.20 | 23,518.90 | 21,476.01 | 54,883.00 | 243,051.11 |
| 36 | Cllr. M.J. Mhlanga (Old Councillor) | 15,436.54 | 2,441.22 | 2,315.48 | 5,917.36 | 26,110.60 |
| 37 | Cllr. L.D. Mndebele | 178,759.88 | 23,518.90 | 26,813.99 | 68,524.62 | 297,617.39 |
| 38 | Cllr. T.J. Mnisi | 178,759.88 | 23,518.90 | 26,813.99 | 68,524.62 | 297,617.39 |
| 39 | Cllr. V.J. Mokoena (Old Councillor) | 15,436.59 | 2,441.22 | 2,315.49 | 5,917.36 | 26,110.66 |
| 40 | Cllr. P.F. Moloyi | 143,173.20 | 23,518.90 | 21,476.01 | 54,883.00 | 243,051.11 |

## Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

**41. Related parties (continued)**

| | | | | | | |
|---|---|---|---|---|---|---|
| 41 | Cllr. T.C. Motha | 198,570.21 | 25,960.12 | 29,785.54 | 76,118.59 | 330,434.46 |
| 42 | Cllr. S.J. Msibi (Old Councillor) | 15,436.54 | 2,441.22 | 2,315.48 | 5,917.36 | 26,110.60 |
| 43 | Cllr. T.G. Msimango (Old Councillor) | 15,436.54 | 2,441.22 | 2,315.48 | 5,917.36 | 26,110.60 |
| 44 | Cllr. B.N.N. Ndlovu | 130,281.02 | 25,959.12 | 52,710.63 | 64,787.28 | 273,738.05 |
| 45 | Cllr. B.R. Ngwenya (Old Councillor) | 19,810.25 | 2,441.22 | 2,971.53 | 7,593.97 | 32,816.97 |
| 46 | Cllr. G.E. Ngwenyama | 75,510.31 | 10,318.90 | 11,326.55 | 28,945.62 | 126,101.38 |
| 47 | Cllr. D.M. Nkambule | 143,173.20 | 23,518.90 | 21,476.01 | 54,883.00 | 243,051.11 |
| 48 | Cllr. D.S. Nkosi (Old Councillor) | 15,436.50 | 2,441.22 | 2,315.48 | 5,917.36 | 26,110.56 |
| 49 | Cllr. N.E. Nkosi | 143,173.20 | 23,518.90 | 21,476.01 | 54,883.00 | 243,051.11 |
| 50 | Cllr. S.J. Nkosi (Old Councillor) | 15,436.54 | 2,441.22 | 2,315.48 | 5,917.36 | 26,110.60 |
| 51 | Cllr. T. Nkosi | 143,173.20 | 23,518.90 | 21,476.01 | 54,883.00 | 243,051.11 |
| 52 | Cllr. Z.J. Nkosi | 194,185.28 | 25,960.12 | 29,127.80 | 74,441.98 | 323,715.18 |
| 53 | Cllr. J.J. Nzimande | 143,173.20 | 23,518.90 | 21,476.01 | 54,883.00 | 243,051.11 |
| 54 | Cllr. J.H. Sibanyoni (Old Councillor) | 15,436.56 | 2,441.22 | 2,315.49 | 5,917.36 | 26,110.63 |
| 55 | Cllr. P.T. Sibeko | 198,570.22 | 25,960.12 | 29,785.54 | 76,118.59 | 330,434.47 |
| 56 | Cllr. B.I. Sibiya (Old Councillor) | 19,810.30 | 2,441.22 | 2,971.54 | 7,593.97 | 32,817.03 |
| 57 | Cllr. M. Sibiya | 143,173.20 | 23,518.90 | 21,476.01 | 54,883.00 | 243,051.11 |
| 58 | Cllr. B.J.M. Sithole | 160,541.52 | 23,518.90 | 24,081.22 | 61,540.69 | 269,682.33 |
| 59 | Cllr. J.T. Soko | 143,173.20 | 23,518.90 | 21,476.01 | 54,883.00 | 243,051.11 |
| 60 | Cllr. H.F. Swart | 158,609.76 | 25,960.12 | 23,791.50 | 60,800.36 | 269,161.74 |
| 61 | Cllr. S.E. Vilakazi (Old Councillor) | 11,647.06 | 2,441.22 | 5,561.47 | 5,917.36 | 25,567.11 |
| | **Total** | **7,681,021.07** | **991,858.12** | **1,331,289.06** | **2,994,040.17** | **12,998,208.42** |

**2016**

| No. | Name | Basic Salary | Contributions to Medical and Pension Funds | Travel Allowance | Cellphone Allowance | Total |
|---|---|---|---|---|---|---|
| 1 | Exceutive Mayor - Cllr. J.S. Bongwe | 513,300.67 | 76,995.13 | 196,765.20 | 24,468.00 | 811,529.00 |
| 2 | MMC - Cllr. V.C. Madini | 365,464.97 | 77,257.07 | 147,573.96 | 24,468.00 | 614,764.00 |
| 3 | Chief Whip - Cllr. N.G. Mashinini | 366,859.90 | 75,862.14 | 147,573.96 | 24,468.00 | 614,764.00 |
| 4 | MMC - Cllr. M.P. Nkosi | 358,461.41 | 84,260.59 | 147,573.98 | 24,468.00 | 614,763.98 |
| 5 | Speaker - Cllr. B.M. Buthelezi | 392,601.82 | 79,633.38 | 157,411.80 | 24,468.00 | 654,115.00 |
| 6 | Cllr. J.D.A. Blignaut | 134,335.13 | 43,591.83 | 59,309.04 | 24,468.00 | 261,704.00 |
| 7 | Cllr. Z. Breydenbach | 154,719.15 | 23,207.87 | 59,308.98 | 24,468.00 | 261,704.00 |
| 8 | Cllr. Z.C. Dhludhlu | 154,719.15 | 23,207.87 | 59,308.98 | 24,468.00 | 261,704.00 |
| 9 | Cllr. K.H. Dladla | 154,719.15 | 23,207.87 | 59,308.98 | 24,468.00 | 261,704.00 |
| 10 | Cllr. G.S. Greyling | 154,719.15 | 23,207.87 | 59,308.98 | 24,468.00 | 261,704.00 |
| 11 | Cllr. S.L. Jele | 166,882.63 | 25,032.39 | 63,971.65 | 26,507.00 | 282,393.67 |
| 12 | Cllr. D.J. Litau | 182,622.81 | 45,717.71 | 76,113.48 | 24,468.00 | 328,922.00 |
| 13 | Cllr. M.C. Lukhele | 138,784.92 | 39,142.04 | 59,309.04 | 24,468.00 | 261,704.00 |
| 14 | Cllr. F.J. Mabasa | 154,719.15 | 23,207.87 | 59,308.98 | 24,468.00 | 261,704.00 |
| 15 | Cllr. S.D. Mabunda | 154,719.15 | 23,207.87 | 59,308.98 | 24,468.00 | 261,704.00 |
| 16 | Cllr. B.I Mabuza | 154,719.15 | 23,207.87 | 59,308.98 | 24,468.00 | 261,704.00 |
| 17 | Cllr. T.T. Malaza | 154,719.15 | 23,207.87 | 59,308.98 | 24,468.00 | 261,704.00 |
| 18 | Cllr. P.B. Maseko | 154,719.15 | 23,207.87 | 59,308.98 | 24,468.00 | 261,704.00 |
| 19 | Cllr. D.T. Masina | 90,252.82 | 13,537.93 | 34,596.94 | 14,273.00 | 152,660.69 |
| 20 | Cllr. P.E. Mashiane | 154,719.15 | 23,207.87 | 59,308.98 | 24,468.00 | 261,704.00 |
| 21 | Cllr. S.C. Mathebula | 154,719.15 | 23,207.87 | 59,308.98 | 24,468.00 | 261,704.00 |
| 22 | Cllr. M.J. Mhlanga | 154,719.15 | 23,207.87 | 59,308.98 | 24,468.00 | 261,704.00 |
| 23 | Cllr. L.P. Mnisi | 154,719.15 | 23,207.87 | 59,308.98 | 24,468.00 | 261,704.00 |
| 24 | Cllr. V.J. Mokoena | 39,927.51 | 5,989.13 | 15,305.56 | 6,314.32 | 67,536.52 |
| 25 | Cllr. E.C. Msezane | 198,557.01 | 29,783.51 | 76,113.48 | 24,468.00 | 328,922.00 |
| 26 | Cllr. S.J. Msibi | 154,719.15 | 23,207.87 | 59,308.98 | 24,468.00 | 261,704.00 |
| 27 | Cllr. G.T. Msimango | 154,719.15 | 23,207.87 | 59,308.98 | 24,468.00 | 261,704.00 |
| 28 | Cllr. B.N.N. Ndlovu | 154,719.09 | 23,207.87 | 59,309.04 | 24,468.00 | 261,704.00 |
| 29 | Cllr. B.R. Ngwenya | 198,556.95 | 29,783.57 | 76,113.48 | 24,468.00 | 328,922.00 |
| 30 | Cllr. T.C. Ngwenya | 198,557.01 | 29,783.51 | 76,113.48 | 24,468.00 | 328,922.00 |
| 31 | Cllr. D.S. Nkosi | 154,719.09 | 23,207.87 | 59,309.04 | 24,468.00 | 261,704.00 |

**41. Related parties (continued)**

| | | | | | | |
|---|---|---|---|---|---|---|
| 32 | Cllr. P.B. Nkosi (Deceased) | 24,326.96 | 3,649.04 | 9,325.34 | 4,078.00 | 41,379.34 |
| 33 | Cllr. S.J. Nkosi | 154,719.15 | 23,207.87 | 59,308.98 | 24,468.00 | 261,704.00 |
| 34 | Cllr. Z.N. Nkosi | 154,717.41 | 23,209.61 | 59,308.98 | 24,468.00 | 261,704.00 |
| 35 | Cllr. B.S. Puwani (Deceased) | 95,603.53 | 27,719.96 | 44,399.53 | 14,273.00 | 181,996.02 |
| 36 | Cllr. J.H. Sibanyoni | 154,719.15 | 23,207.87 | 59,308.98 | 24,468.00 | 261,704.00 |
| 37 | Cllr. P.T. Sibeko | 198,557.01 | 29,783.51 | 76,113.48 | 24,468.00 | 328,922.00 |
| 38 | Cllr. B.I. Sibiya | 198,556.97 | 29,783.55 | 76,113.48 | 24,468.00 | 328,922.00 |
| 39 | Cllr. H.F. Swart | 154,719.15 | 23,207.87 | 59,308.98 | 24,468.00 | 261,704.00 |
| 40 | Cllr. S.E. Vilakazi | 137,625.50 | 40,301.46 | 59,309.04 | 24,468.00 | 261,704.00 |
| | **Total** | **7,248,935.82** | **1,274,974.46** | **2,844,594.62** | **921,825.32** | **12,290,330.22** |

**42. Prior period errors**

The following errors have occurred during the financial year:

**Statement of Financial Position:**

1. Property, plant & equipment - Correction of Work in Progress & Depreciation on Infrastructure assets
2. Payables from exchange transactions -

The correction of the error(s) results in adjustments as follows:

| | |
|---|---|
| **Statement of financial position** | |
| Property, plant and equipment | (8,809,359) |
| Payables from exchange transactions | (1,502,359) |
| **Statement of financial performance** | |
| Depreciation | 309,118 |
| Impairment loss | (300,431) |

**43. Comparative figures**

Presented below are those items contained in the statement of financial position, statement of financial performance that have been reclassified:

1. Consumer debtors reclassified to Trade receivables from exchange and Trade receivables from non-exchange
2. General expenses reclassified to Goverment grant & subsidies

**The effects of the reclassification are as follows:**

**Statement of financial position**

| | 2016 Restated | 2016 Audited | After Reclassification |
|---|---|---|---|
| Consumer debtors | | 50,176,329 | 50,176,329 |
| Receivables from exchange transactions | 50,487,013 | 10,464,312 | (40,022,701) |
| Receivables from non-exchange transactions | 11,094,594 | 366,711 | (10,727,883) |
| **Revenue from non-exchange transactions** | | | |
| Government grants & subsidies | 170,398,166 | 17,273,366 | (124,800) |
| **Expenditure** | | | |
| General Expenses | 36,782,130 | 36,657,171 | (124,800) |

# Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

## 44. Risk management

**Capital risk management**

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the municipality consists of cash and cash equivalents and equity as disclosed in the statement of financial position.

Consistent with others in the industry, the municipality monitors capital on the basis of the debt: equity ratio. This ration is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total equity is represented in the statement of financial position. There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

**Gearing ratio**:

The gearing ratios at 2017 and 2016 respectively were as follows:

| | | |
|---|---|---|
| Less: Cash and cash equivalents | -2,176,317 | -19,263,551 |
| Net debt | -822,504,164 | -598,961,162 |
| Total equity | 1,104,239,358 | 1,357,846,598 |
| Total capital | 281,735,194 | 758,885,436 |
| Gearing ratio | 25.51% | 55.89% |

The gearing ratio of the municipality decreased due to DWARF and ESKOM liabilities respectively increasing. Management has entered into a settlement agreement with ESKOM to repay its debt, and are in continuous communication with DWARF regarding the outstanding debt.

**Financial risk management**

The municipality’s is expose to a variety of financial risks: market risk , fair value interest rate risk, cash flow interest rate risk and price risk, credit risk and liquidity risk, but the exposure is limited to the the municipality’s management thereof. Due to largely, "non-trading nature" of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality’s audit committee, an independent body that monitors the effectiveness of the internal audit function.

**44. Risk management (continued)**
**Liquidity risk**

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The Municipality managing of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met. The tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

| **As at 30 June 2016** | **Less than 1 year** | **Between 1 and 2 years** | **Between 2 and 5 years** | **Over 5 years** |
|---|---|---|---|---|
| Payables from exchange transactions | 689,650,057 | - | - | - |
| Finance lease obligation | 246,279 | | | |

| **At 30 June 2015** | **Less than 1 year** | **Between 1 and 2 years** | **Between 2 and 5 years** | **Over 5 years** |
|---|---|---|---|---|
| Payables from exchange transactions | 499,609,149 | - | - | - |
| Finance lease obligation | 0 | 0 | 233,761 | |

**Interest rate risk**

As the municipality has no significant interest-bearing assets, the municipality's income received on interest on investments are dependent of changes in market interest rates. Interest rate risk is deferred that the fair value of future cash flows associated with a financial instrument will fluctuate in amount as a result in market interest changes.

To decrease interest rate risk exposure, investments is mostly done on a on a term not longer than six months. The current Interest rate shown below is the average interest earned during the year under review on call investment deposits and cash in current banking institutions.

**44. Risk management (continued)**
**Cash flow interest rate risk**

| **Financial instrument** | **Current interest rate** | **Due in less than a year** | **Due in one to two years** | **Due in two to three years** | **Due in three to four years** | **Due after five years** |
|---|---|---|---|---|---|---|
| Cash in current banking institutions | Tiered | 1,940,972.00 | - | - | - | - |
| Call investment deposits | 9.27% | 201,825.00 | - | - | - | - |
| Other financial assets | 0.00% | - | - | - | - | - |

**Credit risk**

Credit risk is the risk of financial loss to the Municipality or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Municipality from customers and investment securities. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Each class of financial instrument is disclosed separately. Maximum exposure to credit risk not covered by collateral is specified. Financial instruments covered by collateral are specified. Credit risk consists mainly of cash deposits, cash equivalents. The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited credit rating agency. The municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the municipality is not exposure to any significant credit risk. Receivables and Other Debtors are individually evaluated annually at statement of financial position date for impairment or discounting. Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, and is not concentrated in any particular sector or geographical area. The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables

Financial assets exposed to credit risk at year end were as follows:

| **Financial instrument** | **2016** | **2015** |
|---|---|---|
| Investments | - | - |
| Receivables from non-exchange transactions | 11,135,788.00 | 11,094,594.00 |
| Receivables from exchange transactions | 54,576,686.00 | 50,487,013.00 |
| Bank balances and cash | 2,176,317.00 | 19,263,551.00 |

The maximum credit and interest risk exposure in respect of the relevant financial instruments amounts to as indicated above.

### 44. Risk management (continued)

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The maximum exposure to cash flow and fair value risk, price risk and foreign currency risk.

There has been no change to the municipality's exposure to market risk on the manner in which manages

**Price risk**

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the statement of financial position either as available for sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance /with the limits set by the municipality. The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

Surplus for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available for sale.

**Market risk**

### 45. Going concern

The municipality is experience some financial difficulties but has the following plans in place:

- Revenue enhancement plan
- Smart meter project
- Cost saving expenditure plan
- Strong adherence to Circular 82
- Debt collection incentive plan

The unaudited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 46. Unauthorised expenditure

| | 2017 | 2016 |
|---|---|---|
| Opening balance | 417,925,011 | 346,484,700 |
| Overspending of expenditure for the current year | 149,225,133 | 71,440,311 |
| | **567,150,144** | **417,925,011** |

### 47. Fruitless and wasteful expenditure

| | 2017 | 2016 |
|---|---|---|
| Opening balance | 67,373,834 | 20,152,744 |
| Interest on arrear account - Eskom | 19,563,496 | 14,483,856 |
| Interest and penalties: DWA | 21,439,726 | 32,737,234 |
| Other | 18,179 | - |
| | **108,395,235** | **67,373,834** |

| Figures in Rand | 2017 | 2016 |
|---|---|---|

## 48. Irregular expenditure

| | | |
|---|---|---|
| Opening balance | 248,785,101 | 135,728,461 |
| Add: Irregular Expenditure - current year | 61,446,403 | 113,056,640 |
| | **310,231,504** | **248,785,101** |

**Analysis of expenditure awaiting condonation per age classification**

| | | |
|---|---|---|
| Current year | 61,446,403 | 113,056,640 |
| Prior years | 248,785,101 | 135,728,461 |
| | **310,231,504** | **248,785,101** |

**Details of irregular expenditure – current year**

| | **Disciplinary steps taken/criminal proceedings** | |
|---|---|---|
| Non-compliance of SCM regulation | All matters where deviation in the SCM was followed | 61,446,403 |
| | | **61,446,403** |

## 49. Additional disclosure in terms of Municipal Finance Management Act

**Contributions to organised local government**

| | | |
|---|---|---|
| Current year subscription / fee | 1,712,810 | 1,712,810 |
| Amount paid - current year | (1,706,261) | (1,712,810) |
| | **6,549** | **-** |

**Material losses through criminal conduct**

Electricity losses for the current year amounted to 41.24% i.e R34,985,890.72 (2016: 10.00% i.e. R24,611,732,.02). These losses comprise of technical and nontechnical losses. Technical losses, being losses within the network which are inherent in any network, account for 10% .Non-technical losses, being theft, faults, billing errors etc. Attempts are currently being made to reducethese non-technical losses.

Non revenue water i.e. non billed water amounted to 46.88 % i.e. R30,916,704.50 (2016: 42.57% i.e. R20,195,561,.79). 10% Of these losses can be accounted for it terms of the National Guidelines for non-revenue water. 4% Of these losses cannot be accounted for mainly due to the non-metering of this water, being theft, faults, billing errors etc. This problem is currently being addressed whereby additional meters are being installed and a data cleansing process will be initiated to address losses.

**Audit fees**

| | | |
|---|---|---|
| Current year subscription / fee | 3,225,760 | 3,508,537 |
| Amount paid - current year | (3,239,704) | (3,508,537) |
| | **(13,944)** | **-** |

**PAYE and UIF**

| | | |
|---|---|---|
| Current year subscription / fee | 23,199,768 | 34,471,921 |
| Amount paid - current year | (21,155,737) | (34,471,921) |
| | **2,044,031** | **-** |

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Current year subscription / fee | 46,529,848 | 41,136,090 |
| Amount paid - current year | (43,848,577) | (41,136,090) |
| | **2,681,271** | **-** |

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 49. Additional disclosure in terms of Municipal Finance Management Act (continued)

**VAT**

| | | |
|---|---|---|
| VAT receivable | 40,450,193 | 23,456,362 |
| | **40,450,193** | **23,456,362** |

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

**Councillors' arrear consumer accounts**

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2017:

| 30 June 2017 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|---|---|---|---|
| Cllr. J.T. Soko | - | 3,591 | 3,591 |
| | **-** | **3,591** | **3,591** |

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

| 30 June 2017 | Highest outstanding amount | Aging (in days) |
|---|---|---|
| Cllr. J.T. Soko | 3,591 | 90 |
| | **3,591** | **90** |

### 50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

| SERVICE-PROVIDER | CONTRACT PRICE | DATE | JUSTIFIABLE REASONS FOR DEVIATIONS | SERVICE- DESCRIPTION |
|---|---|---|---|---|
| JWL INDUSTRIES | R16,363.44 | 2017027 | SOLE SUPPLIERS | REPAIRS |
| LUDENCE (PTY) LTD | R186,000.00 | 20160712 | EMERGENCY | URGENT REPAIR FOR THE SEWER SYSTEM IN BREYTEN |
| ERMELO TRUCK AND TRACTOR | R26,955.36 | 20160721 | EMERGENCY | REPAIRS REG DFR 007MP |
| JWL INDUSTRIES | R16,363.44 | 20160727 | SOLE SUPPLIERS | REAPIRS |
| FIRE RAIDERS | R56,668.37 | 20160804 | SOLE SUPPLIER | REPAIRS : HOLMATRO HYDRAULIC RESCUE RAM RA4432 |
| BABCOCK EQUIPMENT | R107,043.16 | 20160804 | SOLE SUPPLIER | REPAIRS FOR DND 134MP |
| HAMILTON HYDRAULIC | R86,087.10 | 20160804 | SOLE SUPPLIER | REPAIES |
| JAS PRINTER | R3,910.00 | 20160816 | SOLE SUPPLIER | REPAIRS AND MAINTENANCE OF A PRINTER |
| R C TEGNOLOGIE | R19,209.00 | 20160817 | STRIP AND QUOTE | 11 KVA UPS |
| DE WIT MOTORS | R22,535.50 | 20160818 | SOLE SUPPLIERS | BRAKE DRUMS AND DISC WORN OUT |
| DE WIT MOTORS | R6,569.52 | 20160818 | SOLE SUPPLIERS | SERVICE KIT |
| ERMELO TRUCK AND TRACTORS | R95,075.62 | 20160905 | EMERGENCY | REPAIRS |
| THE U JOINT | R7,233.57 | 20160905 | SOLE SUPPLIER | REPAIRS |
| BUSINESS CONNEXION | R15,540.48 | 20160915 | EMERGENCY | ASSISTING WITH INTERIM VALUATION ROLL |
| FIRE RAIDER | R10,739.16 | 20160922 | TRIP AND QUOTE | REPAIR HYDRALIC STEERING SYSTEMS OF FIRE TRUCK |
| LEXISNEXIS PTY LTD | R30,940.28 | 20160923 | SOLE SUPPLIER | LOCAL GOVERNMENT LIBRARY 5ED SET +C |
| ONSOFT PTY LTD | R4,332.00 | 20160927 | SOLE SUPPLIER | NEW SERVER |
| PHINEUM TRADING | R99,000.00 | 20160928 | EMERGENCY | PRINTERS NEEDED FOR SPECIA PRINTING OF RECEIPTS |
| PC ARCHITEC | R197,225.61 | 20161003 | EMERGENCY | PRODUCTION OF PARATUS |
| IHLUBI TRADING | R62,324.00 | 20161003 | EMERGENCY | REPAIR DOUGLAS DAM RAW WATER PUMP |
| VARIPRINT SYSTEMS | R2,911.90 | 20161003 | SOLE SUPPLIERS | BOOKS FOR MOTOR VEHICLE (PUBLIC SAFETY) |
| IHLUBI TRADING | R98,781.63 | 20161003 | EMERGENCY | REPAIR PUMP MOTOR FOR RAW WATER PUMP |
| TRIPLE M | R15,280.00 | 20161007 | SOLE SUPPLIER | ASSESSEMENT OF TWO PABXS AND THE PHONE POINT THAT ARE NOT WORKING |
| DHT WIRED CC | R75,000.00 | 20161019 | EMERGENCY | OPERATING REGULATIONS FOR HIGH VOLTAGE SYSTEMS |
| MANQAMULA CC | R39,150.00 | 20161019 | EMERGENCY | REPALCEMENT OF START SPRING |
| APPLE MINING | R89,000.00 | 20161020 | EMERGENCY | REPAIRS FOR BKR 141MP |
| ROTHMANS | R6,865.98 | 20161020 | EMERGENCY | VEHICLE DUE FOR SERV |
| ROTHMANS | R12,521.13 | 20161021 | EMERGENCY | TRUCK DUE FOR SERVICES |
| LOTTA 2015 | R87,400.00 | 20161021 | EMERGENCY | WATER SUPPLY AT SHEEPMORE |

### 50. Deviation from supply chain management regulations (continued)

| | | | | |
|---|---|---|---|---|
| KHUMBULANI INVESTMENT | R62,420.00 | 20161025 | EMERGENCY | RENOVATION AT THE OFFICE OF THE MMC / AND OFFICE FURNITURE |
| TRIPLE M | R4,960.00 | 20161028 | SOLE SUPPLIER | ASSESSEMENT OF TWO PABXS AND THE PHONE POINT THAT ARE NOT WORKING |
| ABEDCON PROJECTS | R198,104.99 | 20161101 | EMERGENCY | DISMANTLING OF THE EXISTING BUNDLE CONDUCTOR |
| NOMDRIC ELECTRICAL | R147,800.00 | 20161104 | EMERGENCY | POWER OUTAGE IN MSUKALIGWA TOWNSHIP |
| NOMDRIC ELECTRICAL | R169,500.00 | 20161104 | EMERGENCY | POWER FAILURE CABLES |
| NOMDRIC ELECTRICAL | R245,000.00 | 20161104 | EMERGENCY | POWER OUTAGE IN MSUKALIGWA |
| MALI S/S INDUSTRIES | R49,000.00 | 20161104 | EMERGENCY | REPAIR AIRVALVES |
| FOCUS OUTSOURCING | R2,006.00 | 20161108 | EMERGENCY | PRINTING OF APPLICATION FORMS |
| BETHAL FOTO | R18,832.80 | 20161108 | SOLE SUPPLIERS | ENVELOPES FOR STANDAS |
| TRANS ATLANTIC | R4,326.30 | 20161108 | SOLE SUPPLIERS | CALIBERATION OF TRU SPEED MACHINE |
| DRAGER | R2,344.98 | 20161108 | SOLE SUPPLIERS | CALIBERATION OF GRAGER |
| TRUVELO MAINTATNCE | R3,563.79 | 20161108 | SOLE SUPPLIERS | CALIBERATION PROLASER FOR SPEED |
| TRAFFIC SIGNALS | R23,940.00 | 20161108 | EMERGENCY | REPAIRS OF O.R TAMBO AND HENDRINA ROAD TRAFFIC CONTROLLER |
| TRAFFIC SIGNALS | R22,230.00 | 20161108 | EMERGENCY | REPAIR TRAFFIC SIGNALS AT CAMDEN LANE |
| LUDENCE (PTY) LTD | R48,970.00 | 20161109 | EMERGENCY | REPLACEMENT & FABRICATION OF 350MM STEEL |
| JAS PRINT | R5,250.00 | 20161110 | SOLE SUPPLIER | REPLACEMENT OF MANNTALLY T6215 PRINT FRONT CONTROL |
| CONSILIDATED AFRICAN | R9,120.00 | 20161122 | SOLE SUPPLIER | 8 HOURS TELEPHONIC REMOTE SUPPORT |
| ABAFAZI HEALTH SERV | R2,898.00 | 20161130 | SOLE SUPPLIER | BLOOD KIT FOR ALCOHOL TESTING |
| TRAFFIC SIGNAL | R51,100.50 | 20161130 | EMERGENCY | REPAIR CONTROLLER PSU 24 UNIT BLOWN DUE TO POWER SURGE |
| TRIPLE M | R17,419.20 | 20161206 | STRIP AND QUOTE | REPLACEMENT OF FAULTY CARD ON THE PABX SYSTEM |
| TWAIN 2 AUDIO | R5,073.00 | 20161212 | SOLE SUPPLIERS-49 | TO SERVICE AND FIX FAULTY MICROPHONES IN THE MUNICIPAL COUNCIL CHAMBER |
| IRONORE TRADING | R140,904.00 | 20161213 | EMERGENCY | HIRING OF TLB AND TIPPER TRUCK FOR REMOVAL OF REFUSE |
| BRACORE | R8,974.08 | 20161215 | EMERGENCY | CLUTCH KIT |
| KANNAH TRADING | R88,500.00 | 20170103 | EMERGENCY | SUPPLY AND DELIVERY OF 11 KV TRANSFORMER |
| AUTO DOOR | R22,239.69 | 20170109 | SOLE SUPPLIERS | REPAIR OF BAY DOOR AT FIRE STATION |
| JAS PRINTERS | R6,420.00 | 20170110 | SOLE SUPPLIERS | REPAIR TRACTOR FEEDER |
| ABEDCON PROJECTS | R185,671.34 | 20170111 | EMERGENCY | CONSTRUCT AN OVERHEAD LINE AT THE AIRPORT |
| ERMELO ELECTRO MOTOR SERVICES | R38,884.54 | 20170112 | EMERGENCY | REPAIRING OF SEWER PUMP MOTOR |

### 50. Deviation from supply chain management regulations (continued)

| | | | | |
|---|---|---|---|---|
| BRAKECORE SUPPLIER | R9,032.71 | 20170113 | EMERGENCY /STRIP | CLUTCH KIT REPAIR FOR COMPACTOR TRUCK ISUZU REG: BKW 141MP |
| BRAKECORE SUPPLY | R9,632.72 | 20170113 | STRIP & QUOTE | CLUTCH ASSEMBLY FOR COMPACTOR TRUCK |
| FIRE RAIDERS | R45,065.42 | 20170116 | STRIP AND QUOTE | REPAIR OF GEARBOX AND PTO BOX FOR BKS 501MP |
| CONLOG | R505,088.40 | 20170125 | EMERGENCY | SPLIT METERS |
| MKWETAMBULASI TRADING | R4,000.00 | 20170125 | EMERGENCY | MAINTENANCE OF WATER & SANITATION NETWORKS |
| BRAKECORE SUPPLY | R9,644.18 | 20170125 | STRIP & QUOTE | REPAIR BRAKES FOR FAW TRUCK |
| IHLUBI TRADING | R149,283.00 | 20170126 | EMERGENCY | REPAIR RAW WATER PUMP PLUS MOTOR |
| ROTHMAN DELTA | R5,593.95 | 20170207 | STRIP & QUOTE | REPAIRS ON AN ISUZU TRUCK |
| ERMELO ELECTRO MOTOR SERVICES | R25,636.32 | 20170214 | EMERGENCY | 11KV 1400RPM MOTORS |
| LUDENCE (PTY) LTD | R186,000.00 | 20170216 | EMERGENCY | URGENT REPAIR FOR THE SEWER SYSTEM IN BREYTEN |
| MIDDLE SKY | R112,860.00 | 20170216 | EMERGENCY | SUPPLY AND DELIVERY OF 22KV TRANSFORMER |
| ERMELO TRUCK AND TRACTOR | R26,955.36 | 20170221 | EMERGENCY | REPAIRS REG DFR 007MP |
| KANNAH TRADING | R78,500.00 | 20170223 | EMERGENCY | SUPPLY AND DELIVERY OF 11KV TRANSFORMER |
| ROTHMAN DELTA | R12,236.16 | 20170228 | STRIP & QUOTE | REPAIRS OF BRAKES FOR OPEL CORSA |
| KANNAH TRADING | R194,300.00 | 20170228 | EMERGENCY | INSTALLATION OF A RE-CLOSER |
| ABEDCON PROJECTS | R199,404.47 | 20170228 | EMERGENCY | SUPPLY AND DELIVERY OF 95MMX3 CORE CABLE |
| REX,DIFF & GEARBOX | R32,490.00 | 20170306 | STRIP AND QUOTE | REPAIRING OF GEARBOX |
| N.KHOZA LAND SURVEYORS | R196,080.00 | 20170308 | IMPOSSIBLE TO FOLLOW THE PROCUREMENT PROCESSES | BEACON RELOCATION |
| IRONORE TRADING | R440,789.00 | 20170308 | EMERGENCY | COLLECTION OF WAISTE USING TWO TIPPER TRUCKS |
| RDG INNES PARK | R32,490.00 | 20170308 | STRIP AND QUOTE | GEARBOX REPAIR FOR CKB 308MP |
| IRONORE TRADING | R186,789.00 | 20170308 | EMERGENCY | COLLECTION OF WAISTE USING TWO TIPPER TRUCKS DURING WORKERS STRIKE FOR 5 DAYS |
| TWENTY FOUR MOTORS | R27,627.55 | 20170405 | SOLE SUPPLIER | MAJOR SERVICES |
| PAYDAY SOFTWARE | R140,666.88 | 20170407 | SOLE SUPPLIER | MSCOA TECHNOLOGY UGRADE |
| TRAFFIC SIGNALS | R36,075.30 | 20170410 | SOLE SUPPLIER | REPAIRING OF TRAFFIC LIGHTS |
| TRAFFIC SIGNALS | R15,960.00 | 20170410 | SOLE SUPPLIER | REPAIRING AND MAINTANANCE OF TRAFFIC LIGHTS |
| TRUVELO MANUFACTURES | R3,920.16 | 20170504 | SOLE SUPPLIER | CALIBERATIONS OF A MACHINE |
| CV & SS TRADING | R163,500.00 | 20170509 | EMERGENCY | REPAIRS OF A COLLAPSED BRIDGE IN WESSELTON |
| MASEKO BULDING CONSTRUCTION | R248,235.00 | 20170509 | EMERGENCY | REPAIR OF PUMPS,STARTER BOXES,ELECTRIC CABLES AND PLUMBING MATERIALS AT SHEEPMOOR |
| ROTHMAN DELTA | R14,420.69 | 20170510 | SOLE SUPPLIER | SUPPLY AND DELIVERY OF GEAR SELECTOR CABLES |
| MASEKO BULDING CONSTRUCTION | R181,260.00 | 20170515 | STRIP& QUOTE | REPAIRS OF BOREHOLES IN WARBURTON |

### 50. Deviation from supply chain management regulations (continued)

| | | | | |
|---|---|---|---|---|
| DEPARTMENT OF TRANSPORT | R32,834.90 | 20170518 | SOLE SUPPLIER | FACE VALUE FORMS |
| BRAKE CORE SUPPLY | R39,668.60 | 20170602 | STRIP & QUOTE | REPAIRING OF BRAKES OF A CRANE TRUCK |
| ROLLAND CARROS TRADING AND PROJECTS | R234,500.00 | 20170630 | EMERGENCY | HIRING OF WATER TANKERS TO SUPPLY WATER ON FARM AREAS |
| ROLLAND CARROS TRADING | R325,500.00 | 20170630 | EMERGENCY | HIRING OF WATER TANKERS TO SUPPLY WATER ON FARM AREAS |
| AMANZAMHLOPHE CONSTRUCTION | R228,000.00 | 20170630 | EMERGENCY | HIRING OF WATER TANKERS TO SUPPLY WATER ON FARM AREAS |
| LOTTA TRADING 2015 | R314,000.00 | 20170630 | EMERGENCY | HIRING OF WATER TANKERS TO SUPPLY WATER ON FARM AREAS |
| LOTTA TRADING 2015 | R338,800.00 | 20170630 | EMERGENCY | HIRING OF WATER TANKERS TO SUPPLY WATER ON FARM AREAS |
| OLGA &THABANG | R229,400.00 | 20170630 | EMERGENCY | HIRING OF WATER TANKERS TO SUPPLY WATER ON FARM AREAS |
| ROTHMAN DELTA | R5,986.23 | 20170630 | SOLE SUPPLIER | REPAIRING OF GEAR LINKS FOR OPEL CORSA |
| 24 MOTORS | R4,031.09 | 20170630 | SOLE SUPPLIER | REPAIRING OF START BUTTON AND ENGINE MOUNTING |
| ERMELO FIRE & SIGNS | R3,217.65 | 20170630 | STRIP & QUOTE | TESTING OF CYLINDER HYDRAULIC |
| ERMELO FIRE & SIGNS | R7,461.30 | 20170630 | STRIP & QUOTE | TESTING OF CYLINDER HYDRAULIC |
| OLGA AND THABANG | R178,500.00 | 20170630 | EMERGENCY | HIRING OF WATER TANKERS TO SUPPLY WATER IN FARM AREAS |
| OLGA AND THABANG | R325,500.00 | 20170630 | EMERGENCY | HIRING OF WATER TANKERS TO SUPPLY WATER IN FARM AREAS |

# MSUKALIGWA LOCAL MUNICIPALITY
## Unaudited - Appendix B
June 2017

## Analysis of property, plant and equipment as at 30 June 2016

| | Cost/Revaluation | | | | | | | Accumulated depreciation | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance Rand | Additions Rand | Disposals Rand | Transfers Rand | Impairment Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals Rand | Transfers Rand | Depreciation Rand | Impairment Rand | Closing Balance Rand | Carrying value Rand |
| **Land and buildings** | | | | | | | | | | | | | | |
| Land (Separate for AFS purposes) | 184,646,044 | 2,370,175 | - | 2,888,441 | - | **-** | **189,904,660** | - | - | - | - | - | **-** | 189,904,660 |
| Landfill Sites (Separate for AFS pursoses) | 4,409,731 | - | - | - | - | **-** | **4,409,731** | - | - | - | - | - | **-** | 4,409,731 |
| Buildings (Separate for AFS purposes) | 134,015,725 | - | (1,976,291) | - | - | **-** | **132,039,434** | (31,270,336) | 511,489 | - | (4,451,669) | - | **(35,210,516)** | 96,828,918 |
| | **323,071,500** | **2,370,175** | **(1,976,291)** | **2,888,441** | **-** | **-** | **326,353,825** | **(31,270,336)** | **511,489** | **-** | **(4,451,669)** | **-** | **(35,210,516)** | **291,143,309** |
| **Infrastructure** | | | | | | | | | | | | | | |
| Roads, Pavements & Bridges | 895,420,729 | - | (3,679) | 3,244,828 | (7,092,591) | **-** | **891,569,287** | (366,907,633) | 1,472 | - | (41,978,814) | 5,216,272 | **(403,668,703)** | 487,900,584 |
| Generation | 387,221,973 | - | - | 16,153,795 | (976,770) | **-** | **402,398,998** | (117,300,255) | - | - | (9,985,610) | 383,516 | **(126,902,349)** | 275,496,649 |
| Water purification | 375,365,088 | - | - | 4,484,362 | (1,379,249) | **-** | **378,470,201** | (102,783,260) | - | - | (7,765,301) | 666,751 | **(109,881,810)** | 268,588,391 |
| Reticulation | 49,740 | - | - | - | (11,704) | **-** | **38,036** | (22,061) | - | - | (995) | 3,394 | **(19,662)** | 18,374 |
| Sewerage purification | 623,496,426 | - | - | - | (6,466,046) | **-** | **617,030,380** | (224,259,556) | - | - | (10,925,161) | 3,038,296 | **(232,146,421)** | 384,883,959 |
| Transportation (Airports, Car Parks, Bus Terminals and Taxi Ranks) | 7,482,550 | - | - | - | - | **-** | **7,482,550** | (3,741,275) | - | - | (374,128) | - | **(4,115,403)** | 3,367,147 |
| Work in progress | 10,831,269 | 39,555,471 | - | (28,215,646) | - | **-** | **22,171,094** | - | - | - | - | - | **-** | 22,171,094 |
| | **2,299,867,775** | **39,555,471** | **(3,679)** | **(4,332,661)** | **(15,926,360)** | **-** | **2,319,160,546** | **(815,014,040)** | **1,472** | **-** | **(71,030,009)** | **9,308,229** | **(876,734,348)** | **1,442,426,198** |
| **Community Assets** | | | | | | | | | | | | | | |
| Community Assets | 80,979,295 | - | - | 1,444,220 | (35,165) | **-** | **82,388,350** | (18,753,059) | - | - | (2,733,303) | 9,377 | **(21,476,985)** | 60,911,365 |
| | **80,979,295** | **-** | **-** | **1,444,220** | **(35,165)** | **-** | **82,388,350** | **(18,753,059)** | **-** | **-** | **(2,733,303)** | **9,377** | **(21,476,985)** | **60,911,365** |

# MSUKALIGWA LOCAL MUNICIPALITY
## Unaudited - Appendix B
June 2017

## Analysis of property, plant and equipment as at 30 June 2016

| | Cost/Revaluation | | | | | | | Accumulated depreciation | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Opening Balance Rand** | **Additions Rand** | **Disposals Rand** | **Transfers Rand** | **Impairment Rand** | **Other changes, movements Rand** | **Closing Balance Rand** | **Opening Balance Rand** | **Disposals Rand** | **Transfers Rand** | **Depreciation Rand** | **Impairment Rand** | **Closing Balance Rand** | **Carrying value Rand** |
| **Heritage assets** | | | | | | | | | | | | | | |
| Other | 1,069,126 | - | - | - | - | **-** | **1,069,126** | - | - | - | - | - | **-** | 1,069,126 |
| | **1,069,126** | **-** | **-** | **-** | **-** | **-** | **1,069,126** | **-** | **-** | **-** | **-** | **-** | **-** | **1,069,126** |
| **Specialised vehicles** | | | | | | | | | | | | | | |
| **Other assets** | | | | | | | | | | | | | | |
| General vehicles | 15,602,381 | - | (129,599) | - | (257,124) | **-** | **15,215,658** | (10,095,602) | 67,926 | - | (569,867) | 207,768 | **(10,389,775)** | 4,825,883 |
| Plant & equipment | 2,315,689 | - | (4,997) | - | (508,901) | **-** | **1,801,791** | (1,366,597) | 3,273 | - | (221,332) | 354,030 | **(1,230,626)** | 571,165 |
| Computer Equipment | 2,156,522 | 249,321 | (2,862) | - | (82,901) | **-** | **2,320,080** | (1,158,944) | 1,795 | - | (186,637) | 66,293 | **(1,277,493)** | 1,042,587 |
| Furniture & Fittings | 6,815,617 | 431,774 | (2,925) | - | (43,904) | **-** | **7,200,562** | (3,968,353) | 2,363 | - | (689,858) | 35,718 | **(4,620,130)** | 2,580,432 |
| Office Equipment | 1,101,299 | 88,114 | (11,408) | - | (37,944) | **-** | **1,140,061** | (626,806) | 7,643 | - | (105,804) | 26,744 | **(698,223)** | 441,838 |
| Other | 1,205,949 | - | (88,507) | - | - | **-** | **1,117,442** | (726,700) | 58,102 | - | (119,528) | - | **(788,126)** | 329,316 |
| Leased assets | 1,619,242 | - | - | - | - | **-** | **1,619,242** | 65,789 | - | - | (507,453) | - | **(441,664)** | 1,177,578 |
| | **30,816,699** | **769,209** | **(240,298)** | **-** | **(930,774)** | **-** | **30,414,836** | **(17,877,213)** | **141,102** | **-** | **(2,400,479)** | **690,553** | **(19,446,037)** | **10,968,799** |

# MSUKALIGWA LOCAL MUNICIPALITY
## Unaudited - Appendix B
June 2017

## Analysis of property, plant and equipment as at 30 June 2016

| | Cost/Revaluation | | | | | | | Accumulated depreciation | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance Rand | Additions Rand | Disposals Rand | Transfers Rand | Impairment Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals Rand | Transfers Rand | Depreciation Rand | Impairment Rand | Closing Balance Rand | Carrying value Rand |
| **Total property plant and equipment** | | | | | | | | | | | | | | |
| Land and buildings | 323,071,500 | 2,370,175 | (1,976,291) | 2,888,441 | - | **-** | **326,353,825** | (31,270,336) | 511,489 | - | (4,451,669) | - | **(35,210,516)** | 291,143,309 |
| Infrastructure | 2,299,867,775 | 39,555,471 | (3,679) | (4,332,661) | (15,926,360) | **-** | **2,319,160,546** | (815,014,040) | 1,472 | - | (71,030,009) | 9,308,229 | **(876,734,348)** | 1,442,426,198 |
| Community Assets | 80,979,295 | - | - | 1,444,220 | (35,165) | **-** | **82,388,350** | (18,753,059) | - | - | (2,733,303) | 9,377 | **(21,476,985)** | 60,911,365 |
| Heritage assets | 1,069,126 | - | - | - | - | **-** | **1,069,126** | - | - | - | - | - | **-** | 1,069,126 |
| Other assets | 30,816,699 | 769,209 | (240,298) | - | (930,774) | **-** | **30,414,836** | (17,877,213) | 141,102 | - | (2,400,479) | 690,553 | **(19,446,037)** | 10,968,799 |
| | **2,735,804,395** | **42,694,855** | **(2,220,268)** | **-** | **(16,892,299)** | **-** | **2,759,386,683** | **(882,914,648)** | **654,063** | **-** | **(80,615,460)** | **10,008,159** | **(952,867,886)** | **1,806,518,797** |
| **Agricultural/Biological assets** | | | | | | | | | | | | | | |
| **Intangible assets** | | | | | | | | | | | | | | |
| **Investment properties** | | | | | | | | | | | | | | |
| Investment property | 39,487,134 | - | - | - | - | **-** | **39,487,134** | (9,213,665) | - | - | (1,316,238) | - | **(10,529,903)** | 28,957,231 |
| | **39,487,134** | **-** | **-** | **-** | **-** | **-** | **39,487,134** | **(9,213,665)** | **-** | **-** | **(1,316,238)** | **-** | **(10,529,903)** | **28,957,231** |
| **Total** | | | | | | | | | | | | | | |
| Land and buildings | 323,071,500 | 2,370,175 | (1,976,291) | 2,888,441 | - | **-** | **326,353,825** | (31,270,336) | 511,489 | - | (4,451,669) | - | **(35,210,516)** | 291,143,309 |
| Infrastructure | 2,299,867,775 | 39,555,471 | (3,679) | (4,332,661) | (15,926,360) | **-** | **2,319,160,546** | (815,014,040) | 1,472 | - | (71,030,009) | 9,308,229 | **(876,734,348)** | 1,442,426,198 |
| Community Assets | 80,979,295 | - | - | 1,444,220 | (35,165) | **-** | **82,388,350** | (18,753,059) | - | - | (2,733,303) | 9,377 | **(21,476,985)** | 60,911,365 |
| Heritage assets | 1,069,126 | - | - | - | - | **-** | **1,069,126** | - | - | - | - | - | **-** | 1,069,126 |
| Other assets | 30,816,699 | 769,209 | (240,298) | - | (930,774) | **-** | **30,414,836** | (17,877,213) | 141,102 | - | (2,400,479) | 690,553 | **(19,446,037)** | 10,968,799 |
| Investment properties | 39,487,134 | - | - | - | - | **-** | **39,487,134** | (9,213,665) | - | - | (1,316,238) | - | **(10,529,903)** | 28,957,231 |
| | **2,775,291,529** | **42,694,855** | **(2,220,268)** | **-** | **(16,892,299)** | **-** | **2,798,873,817** | **(892,128,313)** | **654,063** | **-** | **(81,931,698)** | **10,008,159** | **(963,397,789)** | **1,835,476,028** |

# MSUKALIGWA LOCAL MUNICIPALITY
## Unaudited - Appendix B
June 2017

## Analysis of property, plant and equipment as at 30 June 2017

| | Cost/Revaluation | | | | | | | Accumulated depreciation | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance Rand | Additions Rand | Disposals Rand | Transfers Rand | Impairment Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals Rand | Transfers Rand | Depreciation Rand | Impairment Rand | Closing Balance Rand | Carrying value Rand |
| **Land and buildings** | | | | | | | | | | | | | | |
| Land (Separate for AFS purposes) | 189,904,660 | - | - | - | - | **-** | **189,904,660** | - | - | - | - | - | **-** | 189,904,660 |
| Landfill Sites (Separate for AFS pursoses) | 4,409,731 | - | - | - | - | **-** | **4,409,731** | - | - | - | - | - | **-** | 4,409,731 |
| Buildings (Separate for AFS purposes) | 132,039,434 | - | - | - | - | **-** | **132,039,434** | (35,210,516) | - | - | (4,401,314) | - | **(39,611,830)** | 92,427,604 |
| | **326,353,825** | **-** | **-** | **-** | **-** | **-** | **326,353,825** | **(35,210,516)** | **-** | **-** | **(4,401,314)** | **-** | **(39,611,830)** | **286,741,995** |
| **Infrastructure** | | | | | | | | | | | | | | |
| Roads, Pavements & Bridges | 891,569,286 | - | - | - | - | **-** | **891,569,286** | (403,668,704) | - | - | (41,608,408) | - | **(445,277,112)** | 446,292,174 |
| Generation | 402,398,998 | - | - | - | - | **-** | **402,398,998** | (126,902,349) | - | - | (10,060,058) | - | **(136,962,407)** | 265,436,591 |
| Water purification | 378,470,201 | - | - | - | - | **-** | **378,470,201** | (109,881,810) | - | - | (7,773,192) | - | **(117,655,002)** | 260,815,199 |
| Reticulation | 38,036 | - | - | - | - | **-** | **38,036** | (19,662) | - | - | (761) | - | **(20,423)** | 17,613 |
| Sewerage purification | 617,030,380 | - | - | - | - | **-** | **617,030,380** | (232,146,420) | - | - | (10,803,495) | - | **(242,949,915)** | 374,080,465 |
| Transportation (Airports, Car Parks, Bus Terminals and Taxi Ranks) | 7,482,550 | - | - | - | - | **-** | **7,482,550** | (4,115,402) | - | - | (374,128) | - | **(4,489,530)** | 2,993,020 |
| Work in progress | 22,171,094 | 46,523,177 | - | (1,672,494) | - | **-** | **67,021,777** | - | - | - | - | - | **-** | 67,021,777 |
| | **2,319,160,545** | **46,523,177** | **-** | **(1,672,494)** | **-** | **-** | **2,364,011,228** | **(876,734,347)** | **-** | **-** | **(70,620,042)** | **-** | **(947,354,389)** | **1,416,656,839** |
| **Community Assets** | | | | | | | | | | | | | | |
| Community Assets | 82,388,350 | - | - | 1,672,494 | - | **-** | **84,060,844** | (21,476,985) | - | - | (2,693,477) | - | **(24,170,462)** | 59,890,382 |
| | **82,388,350** | **-** | **-** | **1,672,494** | **-** | **-** | **84,060,844** | **(21,476,985)** | **-** | **-** | **(2,693,477)** | **-** | **(24,170,462)** | **59,890,382** |

# MSUKALIGWA LOCAL MUNICIPALITY
## Unaudited - Appendix B
June 2017

## Analysis of property, plant and equipment as at 30 June 2017

| | Cost/Revaluation | | | | | | | Accumulated depreciation | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance Rand | Additions Rand | Disposals Rand | Transfers Rand | Impairment Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals Rand | Transfers Rand | Depreciation Rand | Impairment Rand | Closing Balance Rand | Carrying value Rand |
| **Heritage assets** | | | | | | | | | | | | | | |
| Other | 1,069,126 | - | - | - | - | **-** | **1,069,126** | - | - | - | - | - | **-** | 1,069,126 |
| | **1,069,126** | **-** | **-** | **-** | **-** | **-** | **1,069,126** | **-** | **-** | **-** | **-** | **-** | **-** | **1,069,126** |
| **Specialised vehicles** | | | | | | | | | | | | | | |
| **Other assets** | | | | | | | | | | | | | | |
| General vehicles | 22,221,822 | - | - | - | (2,092,352) | **-** | **20,129,470** | (10,583,744) | - | - | (549,765) | 595,834 | **(10,537,675)** | 9,591,795 |
| Plant & equipment | 1,801,791 | - | - | - | (29,031) | **-** | **1,772,760** | (1,230,626) | - | - | (142,097) | 23,314 | **(1,349,409)** | 423,351 |
| Computer Equipment | 2,320,080 | 495,519 | - | - | (174,584) | **-** | **2,641,015** | (1,277,493) | - | - | (275,835) | 136,265 | **(1,417,063)** | 1,223,952 |
| Furniture & Fittings | 7,200,562 | 103,704 | - | - | (121,129) | **-** | **7,183,137** | (4,620,129) | - | - | (712,342) | 97,221 | **(5,235,250)** | 1,947,887 |
| Office Equipment | 1,140,060 | - | - | - | (95,570) | **-** | **1,044,490** | (698,223) | - | - | (114,213) | 70,561 | **(741,875)** | 302,615 |
| Other | 1,117,442 | - | - | - | (5,785) | **-** | **1,111,657** | (788,126) | - | - | (110,101) | 4,050 | **(894,177)** | 217,480 |
| Leased assets | 1,265,541 | - | - | - | - | **-** | **1,265,541** | (247,695) | - | - | (153,828) | - | **(401,523)** | 864,018 |
| | **37,067,298** | **599,223** | **-** | **-** | **(2,518,451)** | **-** | **35,148,070** | **(19,446,036)** | **-** | **-** | **(2,058,181)** | **927,245** | **(20,576,972)** | **14,571,098** |

# MSUKALIGWA LOCAL MUNICIPALITY
## Unaudited - Appendix B
June 2017

## Analysis of property, plant and equipment as at 30 June 2017

| | Cost/Revaluation | | | | | | | Accumulated depreciation | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance Rand | Additions Rand | Disposals Rand | Transfers Rand | Impairment Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals Rand | Transfers Rand | Depreciation Rand | Impairment Rand | Closing Balance Rand | Carrying value Rand |
| **Total property plant and equipment** | | | | | | | | | | | | | | |
| Land and buildings | 326,353,825 | - | - | - | - | **-** | **326,353,825** | (35,210,516) | - | - | (4,401,314) | - | **(39,611,830)** | 286,741,995 |
| Infrastructure | 2,319,160,545 | 46,523,177 | - | (1,672,494) | - | **-** | **2,364,011,228** | (876,734,347) | - | - | (70,620,042) | - | **(947,354,389)** | 1,416,656,839 |
| Community Assets | 82,388,350 | - | - | 1,672,494 | - | **-** | **84,060,844** | (21,476,985) | - | - | (2,693,477) | - | **(24,170,462)** | 59,890,382 |
| Heritage assets | 1,069,126 | - | - | - | - | **-** | **1,069,126** | - | - | - | - | - | **-** | 1,069,126 |
| Other assets | 37,067,298 | 599,223 | - | - | (2,518,451) | **-** | **35,148,070** | (19,446,036) | - | - | (2,058,181) | 927,245 | **(20,576,972)** | 14,571,098 |
| | **2,766,039,144** | **47,122,400** | **-** | **-** | **(2,518,451)** | **-** | **2,810,643,093** | **(952,867,884)** | **-** | **-** | **(79,773,014)** | **927,245** | **(1,031,713,653)** | **1,778,929,440** |
| **Agricultural/Biological assets** | | | | | | | | | | | | | | |
| **Intangible assets** | | | | | | | | | | | | | | |
| **Investment properties** | | | | | | | | | | | | | | |
| Investment property | 39,487,134 | - | - | - | - | **-** | **39,487,134** | (10,529,902) | - | - | (1,316,238) | - | **(11,846,140)** | 27,640,994 |
| | **39,487,134** | **-** | **-** | **-** | **-** | **-** | **39,487,134** | **(10,529,902)** | **-** | **-** | **(1,316,238)** | **-** | **(11,846,140)** | **27,640,994** |
| **Total** | | | | | | | | | | | | | | |
| Land and buildings | 326,353,825 | - | - | - | - | **-** | **326,353,825** | (35,210,516) | - | - | (4,401,314) | - | **(39,611,830)** | 286,741,995 |
| Infrastructure | 2,319,160,545 | 46,523,177 | - | (1,672,494) | - | **-** | **2,364,011,228** | (876,734,347) | - | - | (70,620,042) | - | **(947,354,389)** | 1,416,656,839 |
| Community Assets | 82,388,350 | - | - | 1,672,494 | - | **-** | **84,060,844** | (21,476,985) | - | - | (2,693,477) | - | **(24,170,462)** | 59,890,382 |
| Heritage assets | 1,069,126 | - | - | - | - | **-** | **1,069,126** | - | - | - | - | - | **-** | 1,069,126 |
| Other assets | 37,067,298 | 599,223 | - | - | (2,518,451) | **-** | **35,148,070** | (19,446,036) | - | - | (2,058,181) | 927,245 | **(20,576,972)** | 14,571,098 |
| Investment properties | 39,487,134 | - | - | - | - | **-** | **39,487,134** | (10,529,902) | - | - | (1,316,238) | - | **(11,846,140)** | 27,640,994 |
| | **2,805,526,278** | **47,122,400** | **-** | **-** | **(2,518,451)** | **-** | **2,850,130,227** | **(963,397,786)** | **-** | **-** | **(81,089,252)** | **927,245** | **(1,043,559,793)** | **1,806,570,434** |

## Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2017

| | Current year 2017 Act. Bal. Rand | Current year 2017 Adjusted budget Rand | Variance Rand | Var | Explanation of Significant Variances greater than 10% versus Budget |
|---|---|---|---|---|---|
| Revenue | | | | | |
| Service charges | 285,434,280 | 306,785,862 | (21,351,582) | (7.0) | |
| Rental of facilities and equipment | 2,154,945 | 2,638,470 | (483,525) | (18.3) | |
| Agency services | 11,836,121 | 11,653,000 | 183,121 | 1.6 | |
| Other income - (rollup) | 11,785,941 | 17,366,269 | (5,580,328) | (32.1) | |
| Interest received - investment | 23,177,302 | 23,073,000 | 104,302 | 0.5 | |
| | 334,388,589 | 361,516,601 | (27,128,012) | (7.5) | |
| Expenses | | | | | |
| Personnel | (160,248,195) | (162,532,431) | 2,284,236 | (1.4) | |
| Remuneration of councillors | (12,998,526) | (13,481,305) | 482,779 | (3.6) | |
| Depreciation | (42,991,075) | (85,982,143) | 42,991,068 | (50.0) | |
| Impairments | - | - | - | - | |
| Finance costs | (42,190) | (338,000) | 295,810 | (87.5) | |
| Debt Impairment | (34,253,600) | (69,856,773) | 35,603,173 | (51.0) | |
| Repairs and maintenance - General | (77,060,880) | (114,786,462) | 37,725,582 | (32.9) | |
| Bulk purchases | (162,756,807) | (251,300,000) | 88,543,193 | (35.2) | |
| Contracted Services | (43,196,572) | (57,480,341) | 14,283,769 | (24.8) | |
| General Expenses | (36,802,346) | (43,793,053) | 6,990,707 | (16.0) | |
| | (570,350,191) | (799,550,508) | 229,200,317 | (28.7) | |
| Other revenue and costs | | | | | |
| Gain or loss on disposal of assets and liabilities | 1,399,298 | 2,000,000 | (600,702) | (30.0) | |
| | 1,399,298 | 2,000,000 | (600,702) | (30.0) | |
| Net surplus/ (deficit) for the year | (234,562,304) | (436,033,907) | 201,471,603 | (46.2) | |

**MSUKALIGWA LOCAL MUNICIPALITY**
**Unaudited - Appendix F**
**Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003**
June 2017

| Name of Grants | Quarterly Receipts | | | | | Quarterly Expenditure | | | | | Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 | Total | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 | Total | Yes/ No |
| Equitable Share | 50,601,000 | 40,271,000 | 30,361,000 | - | 121,233,000 | - | - | - | - | - | Yes |
| Municipal Systems Improvement Grant (MSIG) | - | - | - | - | - | - | 149,640 | - | 602,710 | 752,350 | Yes |
| Financial Management Grant (FMG) | 1,810,000 | - | - | - | 1,810,000 | - | - | - | - | - | Yes |
| LGSETA | 66,162 | 45,661 | 91,093 | 68,135 | 271,050 | 70,000 | 75,000 | 29,540 | 26,547 | 201,087 | Yes |
| Expanded Public Works Prgramme Incentive Grant | 344,000 | 619,000 | 413,000 | - | 1,376,000 | 212,907 | 84,135 | 92,821 | 48,842 | 438,705 | Yes |
| Municipal Infrastructure Grant (MIG) | 7,712,000 | - | - | - | 38,492,000 | 2,236,037 | 4,927,288 | 17,166,075 | 14,162,600 | 38,492,000 | Yes |
| Integrated National Electrification Programme | 6,000,000 | 6,000,000 | - | - | 12,000,000 | 3,446,331 | 3,100,862 | 512,370 | 4,940,437 | 12,000,000 | Yes |
| | 66,533,162 | 46,935,661 | 30,865,093 | 68,135 | 175,182,050 | 5,965,275 | 8,336,925 | 17,800,806 | 19,781,136 | 51,884,142 | |